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INDIGENOUS BANKING IN INDIA

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A BANKER'S OFFICE

INDIGENOUS BANKING IN INDIA

BY

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TO

MY REVERED FATHER

BALMUKAND JAIN, Esq.

B.A., C.T., A.C.P. (London)

AN APOLOGY

FOR TWO YEARS' ABSENCE FROM HOME

PREFACE

In the following pages an attempt is made to describe the present indigenous banking system in India. Literature on the subject is almost non-existent. Such information as is given in works on the Indian money-market is incomplete, largely repetitive and in other ways unsatisfactory. There is sometimes confusion of thought and consequent misrepresentation of facts. For example, when in the usual fashion some writers paint the indigenous bankers as a tribe of ' Shylocks,' they do not know that they have in mind only a type of a ' money-lender ' as distinct from a ' banker.' This failure to recognise the difference between a ' money-lender ' and a ' banker ' is responsible for the somewhat unjust light in which the so-called banking castes are represented, although, so far as money-lending is concerned, there is hardly any caste in India which has not a share in the business.

It is commonly stated and believed that usury is rampant in India—a conclusion with which I have no quarrel—but, when no authentic evidence is given relating to the functions and methods of the indigenous bankers, the rates and forms of interest and the peculiar practices in collecting interest charges, it is difficult to form an idea of the true position.

Furthermore, it is reiterated time and again that the Indian ryot is steeped in indebtedness to the bankers. If this statement is true, we are compelled to ask : What is the attitude of the client towards the banker ? What is the

nature of the indebtedness ? Is the burden of debt a greater evil to the borrower than the use of the borrowed capital is a benefit to him ? If so, why does he borrow to his own disadvantage ? What is the total amount of indebtedness ? Is this amount stationary or changing ? If changing, is it increasing or decreasing, and at what rate ? How are the changes in the amount of indebtedness related to movements in the general level of prices ? What is the total amount of interest charges received annually by the bankers from their clients ?

Again, there are other questions to be investigated. To enumerate the more important of them : What is the relationship of indigenous to joint-stock banking in the Indian money-market ? What are the defects peculiar to the indigenous banking system, and what attempts have been made at reform ? What is the best policy to pursue, in the immediate future and ultimately, with a view to establishing a sound banking system, such as will satisfy the needs of the country, having regard to the changing character of these needs ? Should the indigenous banking system be altogether abolished and replaced by another ? Or should it be absorbed in the joint-stock system ? Or, again, should it be reorganised and co-ordinated with the other system in a happy combination, if that be possible ?

Both as a student of the Indian money-market and also as a member of one of the much maligned banking castes, I have long felt that the veil over the subject of indigenous banking should be removed, as much in the interest of a healthy credit machinery for India as in that of the indigenous bankers themselves. As it is, I believe that, if nothing be done to save the indigenous bankers, they will eventually die out. But I also believe that this will take a long time to happen and, so long as the problem of indigenous banking is not solved, it is idle to think of establishing the sound banking system which India needs.

But when, in 1925, I first formed the plan of studying the subject, there were several difficulties to be reckoned with. In the first place, was it to be an all-India or a provincial survey? India is more like a continent than a country; in no two provinces are the conditions alike. A provincial survey seemed at first to be more suitable. But, as I proceeded with the inquiry, it became clear that the broad facts and problems of indigenous banking were so similar all over the country that the subject in its larger aspects could well be treated from an all-India standpoint.

Then there was the question as to the method of investigation. As has already been pointed out, books on the Indian money-market are of little help. Even statistics on indigenous banking do not exist. The annual *Statement relating to Banks in India*, which is published by the Government, contains no figures relating to the indigenous bankers. A good deal of scattered information is contained in the official and other literature to be found in the libraries of the India Office, the office of the High Commissioner for India, the London School of Economics and the British Museum, and this has been searched for the purpose. The list of the literature of which use has been made in this monograph is given in the Appendix.

In order to elicit local information personal visits were paid to the more important centres of indigenous banking in various parts of the country. Considerations of time and expense naturally made it impossible to cover the whole of the country. Moreover, the indigenous bankers are not, as a rule, willing to disclose their trade methods or secrets or to produce their account-books. The managers of the Indian joint-stock banks and the Imperial Bank branches possess some reliable information, but they are also naturally reluctant to impart it to a private inquirer. I was able, however, through personal connections to obtain some information from interviews with a few indigenous bankers.

At the same time, a questionnaire was framed to embody most of the questions raised above. This questionnaire which is given in Appendix II, was issued on 9th March, 1926, and altogether 520 copies were distributed. It was also published in the *Indian Journal of Economics* and the *Jaina Gazette*, the leading paper of the Jaina community. The replies were disappointingly small—only twenty-three persons responded—but they contained useful and suggestive information. On certain aspects of the problem, which were of too technical a nature to be included in the questionnaire, experts in various parts of the country were consulted.

Of the imperfections of this work there is no one who is more conscious than myself. I do not pretend that it is in any way exhaustive. The only justification for its presentation is that it is the first attempt to survey the field of indigenous banking made by one who is not out of touch with the actual working of the system, and that it may form the basis of abler and more elaborate studies.

My thanks are owing to Messrs. C. D. Thompson and S. K. Rudra, my colleagues of the Economics Department in the University of Allahabad, who made helpful suggestions in the preparation of the Questionnaire ; to Sir Basil P. Blackett, who kindly examined the questionnaire and indicated sources of information ; and to all those who have helped me by replying to the questionnaire.

Mr. W. H. Moreland made valuable suggestions on Chapter I., Mr. M. M. S. Gubbay on Chapter III, Sir Atul Chatterji on Chapters I and VIII, and Sir Selwyn Fremantle on Chapters V and VII. To all of these I am deeply indebted, as also to Mrs. V. Anstey for the care with which she read through the manuscript in its early shape and to Miss M. E. Bulkley and Mr. V. Giardelli for their able comments on its general arrangement. My esteemed teacher, Prof. A. R. Burnett-Hurst, has given me willing and ready help at every stage of the inquiry. During the period of my research at the

London School of Economics, Professor T. E. Gregory and Dr. Gilbert Slater have afforded me invaluable criticism, encouragement and advice. The latter has placed me under great obligation by writing the Introduction. My thanks are also due to the Editor of the *Vira* and the Director of the Ganga-Pustakmala Karyalaya, Lucknow, for permission to reproduce a photograph.

L. C. JAIN.

LONDON, S.W. 16
May, 1928.

INTRODUCTION

MR. JAIN'S treatise on Indian Indigenous Banking fills a notable gap in Indian economic literature. Much has been said and written about the deplorable indebtedness of the Indian peasant and the extortionate rates of interest exacted from him by the money-lender. Less has been written about the equally deplorable and less unavoidable indebtedness of the Indian urban worker. Moral indignation has naturally been kindled against the usurers whose greed may turn a temporary calamity or pardonable extravagance on the part of the borrower into the means of his permanent impoverishment. Perhaps more emphasis should have been laid on the broad fact that India is a land of greedy borrowers, with a scarcity of people willing to practise the unattractive economic virtues of thrift and forethought.

In India, as elsewhere, efforts to assist the vast mass of rural and urban workers, crushed under their debts, by measures directly aiming at restricting the activities of the lenders have been of little and of doubtful benefit. Sir Frederick Nicholson in that historic report which begins the history of Indian co-operative banking pointed out the only true line of effective aid. The success of credit banks organised on the lines which he recommended has exceeded reasonable expectations, but the field is so vast and the variety of the credit needs of the people so marked that they must be supplemented by other means. The most notable conclusion to which Mr. Jain's argument points is that nothing short of the building up of an adequate, efficient and

elastic banking system for the whole country, embracing all existing agencies, including even the reprobated indigenous money-lender, will suffice to meet the need. As Mr. Jain belongs to a religious community which in consequence of historic causes has largely specialised in banking, he is able to treat his subject from the inside and this adds greatly to the value of his survey.

GILBERT SLATER.

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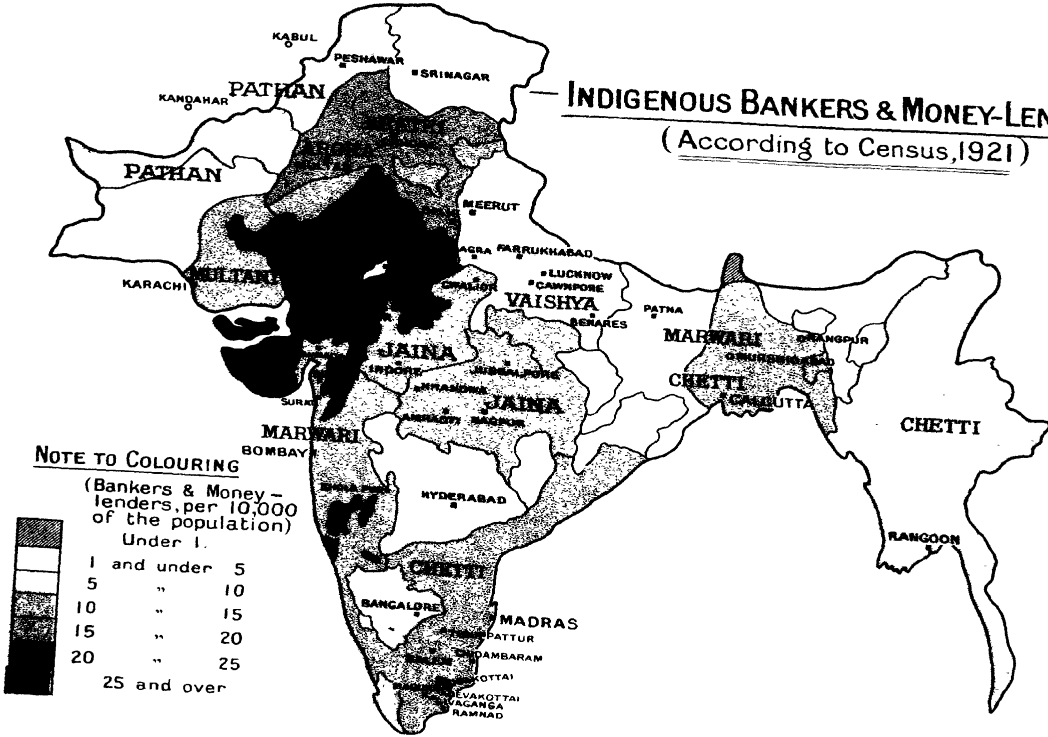


CHAPTER I

EARLY HISTORY OF INDIGENOUS BANKING

I. MEANING OF ' INDIGENOUS BANKING.'

An inquiry into the present system of indigenous banking in India may well be preceded by a brief survey of its growth and development in the past. But at the outset the meaning of the term ' indigenous banking ' must be explained.

' Indigenous banking,' in this inquiry, does not apply to the operations of joint-stock banks or co-operative credit societies, but only to the transactions of the ' indigenous bankers.' Who, then, are the ' indigenous bankers ' whose activities we are about to examine and describe? To answer this question is not so simple as it may appear at first sight. These bankers are not required to register themselves as such under any law of the realm. There is, therefore, no legal definition of the term ' indigenous banker ' available. Nor does the Census contain any definition. The problem is complicated, because in India many persons who are called ' bankers ' do nothing beyond lending out their own personal or family funds at interest. Are these ' money-lenders ' entitled to be classed as ' bankers ' ? If not, how should the one be distinguished from the other?

Indigenous Banker and Money-lender. In common usage in India, the distinction between a ' banker ' and a ' money-lender ' is generally based on the size of the working capital. Every money-lender with a large capital is thus called a banker. But can such a distinction hold good? What is ' large capital ' ? The answer is obviously difficult to give

and cannot be convincing. Every one wishes his capital to be thought large and thus this distinction breaks down.

Even the term 'money-lender' is by no means easy to define. In England, Germany, Austria, Hungary or Italy, wherever money-lending has been the subject of legislation, there has always arisen the difficulty of defining a 'money-lender' in exact terms. The same difficulty has been experienced in India. When in 1925, Mir Maqbool Mahmood introduced a bill entitled the 'Borrowers' Protection Bill,' he defined a 'money-lender' as 'a retail trader whose business was that of charging interest on his balances not occasionally but as his business.' [1] This obviously unsatisfactory definition underwent a change in the Select Committee to which the bill was referred and emerged in the following shape:

> Sub-clause (6): A money-lender '*includes* every person whose business whether carried on in his own name or in any other name or by him and any other person jointly, is that of advancing loans, or who is a partner in any *firm* which carries on such business, or who advertises or announces himself or holds himself out as carrying on such business.' [2]

This definition judging from the last few words, which also appear in the English Money-lenders Act of 1900, seems to have been constructed with the help of that Act. Even so, it is open to at least two objections. First, the expression 'includes' in the opening words indicates that the definition is not exact. Thus, even in other countries it has been found impossible to define a 'money-lender' in precise terms. The second objection is peculiar to India. As was pointed out in the course of discussion on the bill in the Punjab Legislative Council, the word 'firm' used in the definition under examination is open to two interpretations in India. First, there are the firms created by contract and, secondly,

[1] *The Punjab Legislative Council Debates*, vol. ix. p. 1178 (30th June, 1926).

[2] *Ibid.* vol. ix. p. 1227 (1st July, 1926). The italics are mine.

there are the joint Hindu family firms. The Hindus live under what is popularly called the joint Hindu family system. The legal presumption, due to this old institution, is that every Hindu lives in a joint Hindu family, and if one member of the family is engaged on money-lending, all the other members will, according to the said definition, be taken as carrying on money-lending, irrespective of whether they are or are not so employed. A suggestion was, therefore, made in the Council to omit the words, ' or who is a partner in any firm which carries on such business,' but after discussion it was rejected. Its acceptance would, of course, have meant the exclusion of money-lending firms. Thus a perfect definition of a ' banker ' or a ' money-lender ' is yet to be devised.

In this inquiry, the term ' banker ' will be taken to mean any individual or private firm which, in addition to making loans, either receives deposits, or deals in *hundis*,[1] or both, each of which functions clearly belongs to the province of banking, while the term ' money-lender ' will be used for any individual or private firm which makes loans, but usually does not receive deposits or deal in *hundis*.

2. INDIGENOUS BANKING BEFORE THE SEVENTEENTH CENTURY.

Credit in Vedic Times. The system of indigenous banking in India is of ancient growth, but little is known of its origin and development. Starting with the Vedic period, which may be taken to range from 2000 to 1400, B.C., the researches of Macdonnell and Keith reveal that the giving and taking of credit in one form or another must have existed as early as that period. ' Ṛṇa (debt) is repeatedly mentioned from the *Rigveda* onwards, having apparently been a normal condition among the Vedic Indians. Reference is often made to debts, contracted at dicing. To pay off a debt was called

[1] The *hundis* are Indian bills of exchange. They are explained fully in Chapter III.

rnam sam-ni. Allusion is made to debts contracted without intention of payment.' [1]

Interest. On the subject of interest the information is of the slightest. That interest was charged is probable from the fact that the usurer (*kusidin*) is mentioned in the *Satapatha Brahmana* and the *Nirukta* and often in the *Sutras*.[2] But we know nothing about the rate of interest. In one passage of the *Rigveda* and the *Atharavaveda* 'an eighth (*sapha*) and a sixteenth (*kala*) are mentioned as paid.' [3] But from this no inference can be drawn even as to the institution of interest, much less as to its rate. It is possible, as Macdonnell and Keith observe, that the payment may have reference to an instalment of the debt and not to interest. If interest is meant, no period of time is mentioned from which a rate could be calculated. In another passage Macdonnell and Keith remark that 'the result of non-payment of a debt might be very serious: the dicer might fall into slavery.' [4] It thus appears that the position of the debtor was not always a happy one in the time of the *Vedas*. If interest did obtain, it may be presumed that it was paid in kind, for modern researches reveal no mention of the use of metal coins or credit instruments in the *Vedic* period.

Credit in Sutra Times, Seventh to Second Centuries, B.C. But if there is some doubt regarding the payment of interest in the *Vedic* times, no room for uncertainty is left about it in the *Sutra* period. The *Sutras* are assigned by Prof. Hopkins to a period not earlier than the seventh, nor later than the second century, B.C.[5] Another important source for this period is furnished by the Buddhist *Jatakas* or birth stories, which may be taken to refer to the fifth and sixth centuries, B.C.[6]

[1] *Vedic Index of Names and Subjects*, by A. A. Macdonnell and A. B. Keith, 1912, vol. i. p. 109.

[2] *Ibid*. p. 176. [3] *Ibid*. p. 109. [4] *Ibid*.

[5] *Cambridge History of India*, vol. i. edited by E. J. Rapson, 1922, p. 227.

[6] *Early History of India*, by V. Smith, 1914, p. 11.

Evidence of Money-lenders' Existence. That the money-lenders, called Seths [1] or 'bankers,' existed in the fifth and sixth centuries, B.C., is clearly established by the *Jatakas*. To give an instance, the *Katahaka Jataka* relates how Katahaka, who worked as a slave in the house of his master, a *Seth* or great 'banker' and merchant of Benares, forged a letter by which he passed himself off as the 'banker's' son and obtained in marriage the daughter of another 'banker.' [2]

Rate of Interest. 'The legal rate of interest is set at (the equivalent of) fifteen per cent. per annum (five *mashas* a month for twenty *karshapanas*,[3] *Gaut.*, XII, 29; *Baudh* I, 5, 10, 22); but according to Vasishtha (II, 48), "two, three, four, five in the hundred is declared in the *Smriti* to be the monthly interest according to caste" .... The same author prohibits Brahmanas and Kshatriyas from being usurers; but Baudhayana says that a Vaiçya [Vaishya] may practise usury (Vas., II, 40 and Baudh., I, 5, 10, 21).' [4]

The above rates may be analysed as follows:

Legal rate of interest = 15 per cent. per annum.

But according to Vasishtha:

Brahmanas (Priests) -	- 24	per cent.	per	annum.
Kshatriyas (Warriors) -	- 36	,,	,,	,,
Vaishyas (Merchants) -	- 48	,,	,,	,,
Sudras (Working men)	- 60	,,	,,	,,

The above findings indicate that over 2000 years ago a system of money-lending existed, in which definite rates of interest were prescribed—with this peculiarity, that the rates varied, not according to the nature of the transaction,

[1] The word *seth* is sometimes spelt as *sheth* or *set*. It still signifies a great banker or merchant. It seems to be derived from the Sanskrit word *shreshtha*, meaning 'the best.'

[2] *On the Origin of the Indian Brahma Alphabet*, by G. Bühler, 1898, pp. 7-8.

[3] A *Karshapana* = 20 *Mashas*.

[4] *Cambridge History of India*, vol. i. p. 248. See also *Sacred Books of the East*, vol. ii. (edited by F. Max Müller), 1879, pp. 238-41.

but in accordance with the particular caste to which a borrower belonged.

Evidence of Usury. It is also clear that the system of money-lending had with it the usual concomitant of usury. This is also evidenced from the early Buddhist literature, in which the term used in Hindu law-books for 'usury' (*vraddhi*, Pali *vaddhi*) is to be found.[1] But it was held in contempt, as appears from the special law made against it by Vasishtha, the well-known law-giver of that period. The highest castes were not to be usurers, but the *Vaishyas*, who were traders, were excluded from the operation of the law. In the *Jatakas* also, the condemnation of usury can be seen; 'hypocritical ascetics are accused of practising it.'[2]

But, if there was no sympathy for a usurer, there was also no encouragement for a debtor. Non-payment of debt met, it seems, with greater reprobation than the practice of usury. A debtor in those days was debarred from admission to a *Sangha* or religious order. A bankrupt, in a *Jataka* tale, invites 'his creditors to bring their debt-sheets for settlement, only to drown himself before their eyes.'[3]

Money-lending an Honest Trade. On the whole, money-lending in the *Sutra* times seems to have been an honest trade. In one of the *Jatakas* 'a patron, in enabling a huntsman to better himself, names money-lending (*ina-dana*) together with tillage, trade and harvesting as four honest callings.'[4] Another authority, Gautama [the law-giver, not Buddha] 'looks upon money-lending with equal tolerance.'[5]

Money-lending and Trade. This classification of money-lending and trade as honest callings suggests that trade, like money-lending, must have been a regular feature of the economic life of the people in the fifth and sixth centuries B.C., and raises the question of the relation which one business

[1] *Cambridge History of India*, vol. i. p. 218. [2] *Ibid.*
[3] *Ibid.* [4] *Ibid.* [5] *Ibid.*

bore to another. According to the well-known *Baveru-Jataka*, 'the *Vanias* [1] of western India undertook trading voyages to the shores of the Persian Gulf and of its rivers in the fifth, perhaps even in the sixth century, B.C., just as in our days. This trade very probably existed already in much earlier times. For the Jatakas contain several other stories, describing voyages to distant lands and perilous adventures by sea, in which the names of the very ancient western ports of Surparaka (Supara) and Bahrukacha (Broach) are occasionally mentioned.' [2]

It follows that some form of credit machinery must have been necessary to finance this ancient maritime trade, although it is difficult to say how it actually worked. This much is, however, clear, that the trade operations were conducted by the *Vanias*, members of the Indian trading caste, who also acted as money-lenders. The present-day combination of money-lending with other businesses, which we shall describe later, may thus be traced back to as early a period as the fifth and sixth centuries B.C.

Credit Instruments. As to the use of credit instruments, it may be said that a beginning had been made. There appears to be no reference to *hundis* or bills of exchange in the early Buddhist literature [3] or in the *Sutras*, but big merchants in a few towns issued letters of credit and we read of 'signet rings used as deposit or security, of wife and children pledged or sold for debt, and of I O U's or debt-sheets (*ina-pannani*).' [4]

[1] *Vania* or *Bania* is derived from the Sanskrit word *Vanijya*, or trade, and signifies a trader or merchant. The Gujarati word is *Vanio*. The term *Bania* has now come to have bad association of timidity and cupidity and is therefore resented by the traders and money-lenders who prefer to be called *Vaishyas*, *Mahajans*, *Sahukars*, etc. For the meaning of these words, see Glossary at the end.

[2] Bühler, *op. cit.* p. 84.

[3] For the early Buddhist literature see *Jatakas*, English translation from the *Pali* text, edited by E. B. Cowell, 6 vols. 1895-1907, and *Buddhist India*, by T. W. Rhys Davids, 1903.

[4] *Cambridge History of India*, vol. i. p. 218.

Hoarding and Deposits. With the exception of the money-lenders, the people generally appeared to be in the habit of hoarding their surplus wealth and not investing it. 'Capital wealth was hoarded, either in the house—in large mansions over the entrance passage (*dvāra-kottahaka*)—under the ground, in brazen jars and under the river bank, or deposited with a friend. The nature and amount of the wealth thus hoarded was registered on gold or copper plates.' [1]

Indigenous Banking in the Second to the Fifth Centuries, A.D. The first few centuries of the Christian era coincide with the production of the early law books of the Hindus, which are of interest, not only from the point of view of ancient jurisprudence and polity, but also from that of economics and banking. The most celebrated of ancient Indian law-givers is Manu, who is considered by the Hindus to belong to very early ages but whose Code, according to the researches of Prof. Jolly, may be assigned to about the second or third century A.D. Next we have Vishnu in the third century and Yajnavalkya and Narada in the fourth and fifth centuries A.D.[2]

Importance of Money-lending. That money-lending, and the problems connected with it, must have assumed considerable importance by the beginning of the new era, is suggested by the fact that Manu, in enumerating the legal titles under which his work is divided, gives the first two places to the 'Recovery of Debt' and 'Deposits and Pledges.' [3]

Transition from Money-lending to Banking. The fact that Manu devotes a special section to the subject of 'Deposits and Pledges' is significant as indicating that deposit banking, in some form, must have existed at that period. People were enjoined to make deposits with bankers of good repute. 'A sensible man should make a deposit (only) with a person

[1] *Cambridge History*, vol. i. p. 219. [2] *Ibid.* pp. 278-9. [3] *Ibid.* p. 281.

of (good) family, of good conduct, well acquainted with the law, veracious, having many relatives, wealthy and honourable (Arya).' [1]

On this showing, a transition from the 'money-lending' to the 'banking' stage may be said to have taken place by the second or third century A.D. But there is no mention of the payment of interest on the deposits at this early period.

Recovery of Debt. As to the 'Recovery of Debt,' Manu gives wide powers to the creditors.

'By moral suasion, by suit of law, by artful management or by customary proceedings, a creditor may recover property lent; and fifthly by force.' [2]

A curious mode of recovering debt from the defaulters was in vogue. Under the practice called *Dharna*, the creditor posted himself outside the debtor's house and began fasting till either the debt was paid or he (the creditor) died. The debtor usually managed to pay the loan for fear of being injured by the ghost of the dead man.

Rates of Interest. The same rates of interest as those laid down by Vasishtha are given for this period. 'Just two in the hundred, three, four, and five (and not more) he, a money-lender, may take as monthly interest according to the order of the castes (*Varna*).' [3] But elaborate rules were made for safeguarding the interests of the borrowers:

'In money transactions interest paid at one time (not by instalments), shall never exceed the double (of the principal); on grain, fruit, wool or hair (and), beasts of burden it must not be more than five times (the original amount).

'Stipulated interest beyond the legal rate, being against (the law), cannot be recovered; they call that a usurious way (of

[1] *The Laws of Manu*, translated by G. Bühler in the *Sacred Books of the East*, vol. xxv. 1886, p. 286.

[2] *The Laws of Manu*, p. 262. Cf. similar elaborate rules regarding recovery of debts, deposits and pledges set out in *Kautilya's Arthasastra*, translated by R. Samsastry, 1915, pp. 221-230.

[3] *Ibid.* p. 278. See above, p. 5.

lending) ; (the lender) is (in no case) entitled to (more than) five in the hundred.' [1]

Further compound interest was prohibited.

Indigenous Banking from the Sixth to the Sixteenth Centuries. There is no extant account of indigenous banking from the sixth to the sixteenth centuries. The original Sanskrit and Persian chronicles of the period might yield information, but no one has yet explored them from this point of view. For our present purpose, which is merely to show that the indigenous bankers are of ancient growth and existed in different periods of Indian history, the following stray points are perhaps not without interest.

In the twelfth century the Jaina bankers were already very wealthy. This appears from an inscription in the famous Jaina temples of Dilwara on Mount Abu, according to which the finest of them was built by two Jaina bankers between 1197 and 1247 A.D.[2] The temple must have cost an enormous sum of money.

In the fourteenth century we find allusions to the activities of the *Multaniyas*. Who they were we do not know, but they played an important part in the finances of the Delhi kingdom.[3]

In the reign of Firoz Shah (1351-88), the bankers of Sarsuti, ninety *kos* (180 miles) from Delhi, lent to the State large sums of money which were used for payments to the army.[4] Furthermore, soldiers at Delhi were paid by 'cash-orders' (*itlaq*) on outlying places; these were discounted in Delhi by financiers who made a regular business of it, and earned a good income.[5]

[1] *The Laws of Manu*, p. 280.

[2] For a description of the temples, see below, pp. 29 and 71.

[3] For this and the next point I am indebted to Mr. W. H. Moreland.

[4] *The History of India as told by its own historians.* From the papers of Sir H. M. Elliot, edited by J. Dawson, 1871, vol. iii. p. 282.

[5] *Ibid.* pp. 346-7. Irvine in the *Imperial Gazetteer*, 1908 (vol. ii. p. 365), has read the original passage in Persian differently from Dawson, and we are left in doubt as to which translation is correct.

3. INDIGENOUS BANKING IN THE SEVENTEENTH CENTURY.

It is fortunate that about the middle of the seventeenth century there came to India the well-known French traveller, J. B. Tavernier, who has left elaborate accounts of what he saw. Some idea of the system of indigenous banking at this period can be obtained from the following observations : [1]

Money-changing. 'In India a village must be very small indeed if it has not a money-changer called a Shroff,[2] who acts as a banker to make remittances of money and issue letters of exchange. As, in general, these Changers have an understanding with the Governors of Provinces, they enhance the rupee [3] as they please for paisa,[4] and the paisa for these shells [cowries].[5] All the Jews who occupy themselves with money and exchange in the empire of the Grand Seigneur pass for being very sharp ; but in India they would scarcely be apprentices to these Changers.

'They have a very inconvenient custom for payments, and I have already remarked upon it in reference to golden rupees when a payment is made in that coin. They say that the longer a rupee of silver has been coined the less is it worth in comparison with those newly coined or which have been coined a short time, because the old ones having often passed by hand, become worn, and they are in consequence lighter. Thus, when you make a sale it is necessary to say that you require to be paid in Shahjahani [6] rupees, *i.e.* in new silver, otherwise your payment will

[1] Tavernier paid five visits to India (see the preface to *Travels in India*, by J. B. Tavernier, translated by Dr. V. Ball, 1925). His first voyage seems to have been made about 1640, and the last about 1665. The original French edition of his *Travels* was published in 1676.

[2] *Shroff* signifies a goldsmith or a banker. The word in the original French edition is *Cheraf*. The word *Shroff* is still used for a goldsmith in the United Provinces. In the Bombay Presidency, it is a term for an indigenous banker.

[3] 1 rupee = 2s. 3d.

[4] 46-56 *paisa* = 1 rupee. In the original French edition, the word used is *pecha*. The coin is still current in India, but its present value is fixed at $\frac{1}{64}$th of a rupee and does not fluctuate as it did in the seventeenth century.

[5] Fifty to eighty *cowries* went to a *paisa*.

[6] *Shahjahani, i.e.* coined in the reign of Shahjahan and therefore new. Tavernier uses the word *Cha Jenni*.

be made in rupees coined fifteen or twenty years or more, upon which there may be up to 4 per cent. of loss. For in the case of those which have not been coined within two years, ¼ per cent. is demanded or at least ⅛th ; and the poor people who do not know how to read the year when these rupees or paisa were coined are liable to be cheated, because something is always deducted from them, one paisa or half paisa on a rupee, and on the paisa three or four cowries.' [1]

The foregoing account shows how an indigenous banker was to be found, in the Moghul times, even in the villages, and how he performed the additional function of a money-changer, which yielded him good profit. Some light is thrown on this business of an indigenous banker by the then system of currency and coinage.

Moghul Coinage. The Moghul system of coinage was distinguished by the large number of mints, scattered all over the country from which currency was issued. According to the *Ain-i Akbari*, an original source of information on the reign of that famous Moghul emperor, Akbar the Great, it appears that in his reign, even after the closing down of several mints, gold coins were issued from no less than four places, viz., Agra, Lakhnauti, Ahmadabad and Kabul, while silver and copper coins were struck at ten other towns, besides the above four.[2]

The principal gold coin of Akbar's reign was called the *S'hansah.* There were two series of this round coin, of the same name and impression, one weighing 101 *tolas* 9 *mashas*[3] and the other 91 *tolas* 8 *mashas.* The next gold coin was the *Rahas*, half the weight of the *S'hansah*, which was again issued in two series, corresponding to the two series of the *S'hansah.* Besides these, twenty-four other gold coins are mentioned, and in some cases there appears to be more than

[1] *Travels*, Tavernier, vol. i. pp. 24-25.

[2] *Ain-i Akbari*, by Abul-Fazl-i 'Allami, translated by Blochmann and Jarrett, 1873, vol. i. p. 31.

[3] 12 *mashas* = 1 *tola* = 180 grains.

one issue of the same coin with no difference in name but varying in shape or in weight.[1]

The gold coins, however, were not so much in use as the silver ones. Of the latter the most important coin was the 'Rupee,' round in shape and weighing 11½ *mashas* (almost the same weight as that of our present 'rupee,' which is 12 *mashas*). This was first introduced in the reign of Sher Shah, but was greatly improved by Akbar. On one side of it were the words, 'God is greatest, mighty is his glory,' in Persian, and on the reverse was the date. As to the value of this principal silver coin, we are told in the *Ain-i Akbari* itself that, 'although the market price is sometimes more or less than 40 *dams*, yet this value is always set upon it in the payment of salaries.'[2] Another silver coin first issued by Akbar was the *Jalalah* which had the same weight and impression as the rupee but was square in shape.[3] Then there were seven other subsidiary coins, the smallest silver piece being the *Suki* which was $\frac{1}{20}$ rupee. There were copper coins, too, in circulation, beginning with the *Dam*, forty of which went to the rupee. The smallest copper coin was the *Damri* (⅛ *dam*).

Imagine these numerous coins,[4] some of them of the same denomination, but all differing in market value, and some idea can be had of the scope of a money-changer's business and the profits which must have attended it. Note that the gold, the silver and even the copper coins were not overvalued token coins, but were of full bullion value. Every change in the value of either gold or silver bullion or of raw copper, therefore, affected the exchanges.

Allied Occupations carried on by Money-lenders. The Moghul system of coinage afforded yet other occupations to

[1] *Ain-i Akbari*, pp. 29-30. [2] *Ibid.* p. 31.

[3] Yet another rupee, a little less in weight than the *Jalalah* and officially values at 38 *dams*, was also current (*Ain-i Akbari*, p. 33).

[4] A list of 46 gold, 125 silver, and 229 copper, coins of Akbar's reign is given in the *Catalogue of the Coins in the Indian Museum*, Calcutta, by H. N. Wright, 1908, pp. 9 *seq.*

the money-lending class. The second officer of a mint was called a 'sarraf'[1] whose business was to assay the metals. 'On account of the prosperity of the present age, there are now numbers of skilful *sarrafs*; and by the attention of his Majesty, Akbar, gold and silver are refined to the highest degree of purity.'[2] The fifth officer was a 'merchant' who 'buys up gold, silver, copper, by which he gains a profit for himself, assists the department, and benefits the revenues of the State. Trade will flourish, when justice is everywhere to be had, and when rulers are not avaricious.'[3] The *sarrāf* was paid by the fees, while the 'merchant' earned his own profits.

Parsimony of Indigenous Bankers. Referring to the indigenous bankers' business of assaying the precious metals, Tavernier was struck by the parsimony of the Indian business men. 'Of all the gold which remains on the touchstone after an assay has been made,' he writes, 'and of which we here make no account, far from allowing so small a thing to be lost, they collect it with the aid of a ball, made half of black pitch, and half of wax, with which they rub the stone which carries the gold, and at the end of some years they burn the ball and so obtain the gold which it has accumulated. The ball is of the size of our tennis-court balls and the stone is like those which our goldsmiths commonly use.'[4]

Bills of Exchange. Tavernier also mentions how the foreign trade of the country in the seventeenth century was financed partly by cash and partly by bills drawn on Surat and payable in two months. He goes on to give the following rates of exchange. 'At Lahore on Surat the exchange goes up to 6¼ per cent., at Agra from 4¼ to 5; at Ahmadabad from 1 to 1½; at Sironj to 3; at Burhanpur from 2½ to 3; at Dacca to 10; at Patna from 7 to 8; at Benares to 6.'[5]

[1] *Sarraf* is the same as *Shroff*. [2] *Ain-i Akbari*, p. 18. [3] *Ibid.* p. 20.

[4] *Travels*, Tavernier, vol. i. p. 29. The practice still prevails among the Indian goldsmiths.

[5] *Ibid.* p. 30.

Bankers' Risks. The bankers in those days, according to Tavernier, ran the risk of losing their money on the bills of exchange, if the goods against which they were drawn were stolen in transit. This may partly explain why some of the above rates are higher than others, the risk involved varying according to the centre from which the goods were dispatched.

Indigenous Bankers and the Moghul State. It thus appears that the indigenous bankers of the Moghul period played an important part in financing the trade of the country by means of credit instruments. But what is even more striking is the evidence of the signal services they rendered to the State, not only as officers of the Royal Mints, but also by advancing to the Royal Treasury large sums of money in times of national need. How powerful they must have been may be inferred from the fact that we find such an orthodox Mahomedan Emperor of India as Aurangzeb honouring Manik Chand, the most eminent banker of his time, with the title of '*Seth.*' Seth Manik Chand had six brothers who were all great bankers. They came from an important Jaina family, their father being himself a great banker of the seventeenth century. Seth Manik Chand had no issue and therefore adopted his nephew, Fateh Chand, who was himself an eminent banker of Murshidabad. The latter was the first banker in India to receive the distinction of the hereditary title of *Jagat Seth* (World Banker) from the Emperor Farrukhsiyar, in recognition of the extensive monetary help which he had given to His Majesty in his campaign against the Emperor Mouzoo Deen. Such was the royal favour bestowed on the family of Fateh Chand that from that time no Emperor of Delhi sent the *Khillat* [Robes of Honour] to the Nazim of Bengal without sending one to the *Jagat Seth.*[1]

[1] This account is based on information contained in *Selections from the Unpublished Records of Government*, vol. i, for the years 1748-1767, by Rev. J. Long, Calcutta, 1869, pp. 578-9. I have modernised the spelling of the names.

4. EFFECT OF CONTACT WITH THE WEST.

Advent of the English. It was in the Moghul times that certain epoch-making events occurred which were eventually to affect fundamentally the whole system of indigenous banking in India. History records how, thanks to the progress of sea communications, in the seventeenth century, foreign traders came all the way from the West to establish trade relations with the East. How these traders financed their commerce with India, in those days, when the West had no banking relations with the East, how soon credit links were formed, what shapes they took, and how the indigenous banking system was affected by the arrival of the foreign traders, in the early days of their settlement in India, are subjects of great interest and importance. The East India Company Records deposited in the India Office and other contemporary sources are a mine worth working and should yield valuable material for an important period in Indian banking history, about which at present we know but little.

Answers to the questions enumerated above would need a volume to themselves, they lie beyond the scope of the present study. But a few words in regards to them may not only serve as a connecting link between the past and the present, but also be useful for a better understanding of the present and the future.

Methods adopted by the English Traders to meet their Credit Needs. When the English traders came to India in the seventeenth century, the indigenous banking system was already established. But, while they required some machinery to satisfy their credit needs, they could not easily make use of the indigenous system. They on their side were not conversant with the language of the indigenous bankers, while the bankers had no experience of the finance of Western trade. In order to overcome these two-fold difficulties, two remedies were adopted.

In the first place, we find that the English merchant houses which were established in Calcutta took upon themselves the business of banking in addition to their commercial and trading activities.

At the same time, the importance of forming connections with the indigenous bankers, who held a high place in the financial and political activities of the country, was not ignored. This can be seen from a letter which the Court of Directors wrote to Fort St. George in 1677. In that letter they offered twenty pounds reward 'to any our servants or soldiers as shall be able to speak, write and translate the *Banian* language, and to learn their arithmetic.'[1] The *Banias*, or, to give them their proper name, *Vaishyas*, are the oldest indigenous bankers of India, about whom we shall learn more hereafter.

Internecine Disputes and Indigenous Bankers. The coming of the foreign traders coincided in India with internal dissensions and warfare At the beginning of the seventeenth century, the Moghul Empire was at its zenith; the latter years of the century marked its downfall. Wars and chaos are nowhere conducive to the maintenance of trade and commerce, and shock to trade and commerce often results in a breakdown of the credit system. The indigenous bankers could not remain unaffected. Their business, in the nature of things, received a rude blow, their decline had set in.

But the wars in India, as elsewhere, if injurious to banking, the feeder of trade and commerce, could not be carried on and prolonged without being themselves fed by money. Money was wanted and the indigenous bankers in India contributed their share, just as the goldsmiths, the private bankers of London, had furnished funds for Cromwell to enable him to conduct his campaign. Without such help,

[1] *Notes on Extracts from the Government Records in Fort St. George, Madras* (1670-1677), vol. i. p. 18. The italics are mine.

the history of England and of India would have been written in a different way.

Assistance Rendered to the English by Indigenous Bankers. Mention has been made already of the famous banking house of the *Jagat Seths,* the Rothschilds of India, and of their importance as the greatest financiers of the times. How cordial their relations were with the English may be imagined from the following account given by the Rev. J. Long.

'In 1759 Clive entertained Jaggat Seth for four days at a cost of Rs. 17,374; the items are given; among the presents are 1 otto box set with diamonds Rs. 3,222, 8 tweezer cases at Rs. 55 each. Rs. 500 was given to servants.

'Attached to the English they paid the penalty for it in being flung like dogs from the bastions of Monghyr fort into the raging Ganges by Kasim Ali.

'The sons tried to rally in business, and we find in 1764 the English Government borrowing 5 lacs from them.

'In 1768 the Court of Directors, directing the debts due by the Government to the Sets to be paid, remarks "that family, who have suffered so much in our cause, are particularly entitled to our protection".'[1]

Revenue Collection through Indigenous Bankers. The Bengal Districts Records of the eighteenth century show that the revenue was not paid by the land-owners to the revenue officers of the East India Company direct, but was collected through the agency of the indigenous bankers. The practice was rather curious. As the land-owners were unable to collect their dues from the cultivators at as frequent intervals as the Government instalments fell due, the indigenous bankers agreed to be their sureties and paid the revenue on their behalf in bills at fifteen or twenty days' date.[2] As these bills became due, sealed bags containing, according to the bankers' assertion, the requisite value in

[1] Long, *op. cit.* vol. i. p. xli.

[2] *Bengal District Records* (edited by W. R. Firminger, Calcutta, 1914, etc.), *Rangpur,* vol. i. (1770-1779), pp. 15-16. A similar practice obtained in Benares even in the nineteenth century.

narainy or *khazannati shi* [1] coins were delivered into the Treasury. At irregular intervals these bags were exchanged for Arcot rupees, the currency current in all parts of the country. The bags could not be opened by the Treasury, because the indigenous bankers were 'averse to the opening and inspection of them, declaring it to be contrary to the established custom of the country and destructive of their credit.' [2] The system was an old one. 'The oldest of the revenue officers here' writes a Collector in 1777, 'declare that it existed before their time.' [3]

From the administrative point of view, the above mode of collecting revenue had two main drawbacks. Firstly, the State lost a portion of the revenue, which the indigenous bankers appropriated to themselves in various ways. Secondly, the State was too much dependent on the bankers. Steps were taken to abolish the system in 1778. On 20th January of that year the Governor-General in Council, in addressing a letter to the Collector of Rangpur, recommended the institution of an inquiry into the whole system of revenue collection, with a view to forming 'such an adjustment with the zemindars for the next year as shall free them from the intermediate charge which is imposed upon them by this connection; placing the Company as nearly as can be in the stead of Shroffs, but without exacting any increase in their jumma [total dues], and regulating the kishbundee [instalments] by the fussilbundee, or estimated produce of the harvest.' [4]

Indigenous Bankers' Decline. By the end of the eighteenth century the indigenous bankers appear to have been shorn of much of their glory. The incessant wars and unsettled

[1] These coins, spelt by Firminger as *khazana shi*, were issued from the Cooch Behar mint (*ibid.* p. 16). They were used in revenue payments and were current in the province of Rangpur only (see letter from G. Purling to the Governor-General, 21st October, 1777, in *ibid.* p. 23).

[2] Letter from same to same, 24th September, 1777 (*ibid.* p. 17).

[3] Letter from same to same, 21st October, 1777 (*ibid.* p. 23).

[4] *Bengal District Records, Rangpur,* vol. i. p. 33.

conditions of life which marked those days had marred their business. They were sometimes unable to redeem their promises, some of them were led to adopt questionable devices, while not infrequently they were cheated by their customers.

Victims of Oppression by their Debtors. There is historical evidence that the indigenous bankers' claims on ruling princes were sometimes evaded, or not satisfied. For example, in November, 1795, the Vizier of Oudh was indebted to the bankers to the extent of R. 1,02,40,120, besides 75 lakhs which was owing to officers on account of salaries unpaid.[1] It appears that the Vizier came to some private settlement with the bankers, by which they were to receive the outstanding principal, reduced by half the amount of interest which had been paid to them previously, in full satisfaction of their claims. The house of Dwarka Das, son of Gopal Das, did not agree to this stipulation, and demanded payment of the principal in full, while waiving the question of interest.

But these debts remained unpaid. In 1798 when a treaty was being made between the East India Company and the Vizier Asaf-ud-Dowlah, we find Sir John Shore, in omitting an article about the private debts of the Vizier, recording as follows :

'On this subject I informed the Nabob that although the article was withdrawn, it was left to his equity to satisfy such claims as he might deem fair and just ; in this class he would, upon inquiry, probably find the demands of the Shroffs upon the Vizier, and if so, that it would be his interest not to overlook them.'[2]

Again, in 1801, Lord Mornington (Marquis of Wellesley) observed on the same subject :

'The justice and necessity of discharging the *bona fide* debts

[1] Parliamentary Return on *Calcutta Bankers* (H. of C., No. 415 of 1822), p. 8.

[2] *Ibid.* p. 10.

to the native creditors of the State, and also the arrears of the civil and military establishments, are apparent, and it might, with strict propriety be expected, that the Nawaub should apply a part of his treasures to the liquidation of these demands.' [1]

The Vizier's attitude in the matter may be gathered from the following article, which among others he sent in May, 1801, to the Governor-General for his approval.

'The payments of the debts of my predecessor, Asophul Dowlah is not stipulated for in the existing treaty (viz., the Treaty of 1798). I am moreover unable to liquidate the debts contracted in the late reign; but this is an affair which will be adjusted between the State and the creditors of the late Nawaub, the treaty being silent on this subject.' [2]

Another important case in which the bankers' claims suffered for a long time was that investigated by the Carnatic Commissioners, who were appointed under an agreement concluded on 10th July, 1805, between the private creditors of the late Nabobs of the Carnatic and the East India Company. The reports of the Commissioners show that large sums were owing to the two big banking houses of Bavany Doss Nanasa Soucar [3] and Dava Boocunji Cashee Dass Soukar, among others.[4]

The Bankers' Malpractices. On the other hand, cases are on record which reveal questionable practices on the part of the indigenous bankers. The following extract from Mr. Thackeray's report on Ganjam, dated 15th February, 1819, speaks for itself.

'In the case of the private debts, the suit might perhaps be heard in the usual courts; but it is incumbent on them not to

[1] Parliamentary Return on *Calcutta Bankers*, p. 13. [2] *Ibid.* p. 14.

[3] The right word is *Sahukar* which signifies a money-lender or banker. It seems to have been derived from the Sanskrit word *sadhukar*, meaning 'right-doer.' Cf. 'village *savkar*' the term wrongly used by G. Keatinge (*Rural Economy in the Bombay Deccan*, 1912, p. 81); also *saucar* used by G. F. Shirras (*Indian Finance and Banking*, 1920, p. 341.).

[4] Parliamentary Return on *Carnatic Debts* (H. of C., No. 114 of 1830, vol. xv. pp. 563 *et seq.*).

decree at once upon bonds given by the Rajahs, however regular and formal such bonds may appear. The court must inquire into the facts, and look at the accounts. Such bonds are often exacted by Soukars and other creditors, when the Rajah is in distress. He may want five thousand to pay his *kist* [instalment]; the Soukar agrees to advance five thousand, provided he gives a bond, and perhaps mortgages a district, for the amount of some former debt, with interest at two per cent. a month. The Rajah is pushed for the money, and signs the bond for the old debt with this usurious interest and perhaps the new debt also included.' [1]

To take another example, it appears from the Duncan Records [2] that the Benares bankers [3] appropriated R. 17,084 4 a. on the plea of repaying Kutb Ali's debts to them for the preceding year. The Resident ordered the refunding of this amount to the public revenue. But the bankers of Benares were so offended that they combined together and refused to give their notes, called *dakhillas*, for the next *kist*, or instalment, until the Resident agreed to the deposit of the sum in one of their own houses, subject to the Resident's final orders. Later it was discovered that further amounts to the extent of R. 70,000 had been misappropriated, but recovery was difficult, because of the powerful position of the bankers under the system in force of collecting the State revenue. Each instalment was realised, not in cash, but by means of *dakhillas*, payable in a certain number of days. The renters being generally in arrears to the bankers, the latter exacted their own terms for the *dakhillas* from the former, as well as sometimes from the Government, before paying the *dakhillas* for the next *kist*. The Resident had

[1] *Selection of Papers from the Records at the East India House*, 1820, vol. i. p. 995.

[2] *Selections from the Duncan Records*, by A. Shakespeare, vol. i., 1873, pp. 33-34.

[3] The bankers of Benares occupied a high place in society. The 'Nowptee Mehajuns [bankers] of Benares, when defendants,' were exempt from furnishing security of appearance in Civil Courts, according to the Bengal Regulation No. 8, Section 10, of 1795. See *Digest of the Bengal Regulations and Laws*, by J. E. Colebrooke, Calcutta, 1807, vol. i. p. 246.

thus to contend with the conflicting interests of the renters, the bankers and the Raja.

New Credit Institutions. With the decline of the indigenous bankers and the gradual progress of English trade and dominion in India, a need was felt for the establishment of banks which would meet both administrative requirements and the demands of trade. These twofold needs led, on the one hand, to the creation of Government treasuries and sub-treasuries and, on the other hand, to the foundation of early European banking institutions.[1]

Their Effect on Indigenous Banking. A question naturally arises here, how did the western contact and the new banking institutions affect the indigenous banker? A complete answer to this question cannot be attempted, as it is not, strictly speaking, germane to the present work. But one or two important changes may well be noticed. If we compare the present functions of an indigenous banker with those which he performed before the advent of the foreign traders, we shall find that he no longer plays the role of a revenue collector or that of a State banker.

At the same time, he has lost much of the money-changing business. In Akbar's reign, we have seen, money-changing was an important and lucrative function of an indigenous banker. During the period from Akbar to Bahadur II, the total number of mints in use, at one time or another, was about two hundred. In Aurangzeb's reign alone there were no less than seventy mints[2] from which coins were issued. It is not surprising, therefore, that, towards the end of the Moghul period, there was a bewildering collection of coins, some of them of the same denomination, bearing different dates and circulating at varying values in different parts of the country. To change one kind of currency for another,

[1] For an interesting account of some of these, see *Early European Banking in India*, by H. Sinha, 1927.

[2] *Imperial Gazetteer of India*, 1907, vol. iv. p. 514.

the services of an indigenous banker were always in request. The man in the street knew little about the fluctuations in the rates of exchange, and the banker made the most of this situation. Even in the beginning of the nineteenth century, when steps were taken by the English to reform the currency, four different rupees (which had taken the place of miscellaneous coins) were current—the Murshidabad rupee of the nineteenth year of Shah Alam's reign, weighing 179⅝ grains (175·9 grains pure silver), which was known as the *sikka* rupee; the Surat rupee, containing 164·7 grains of pure silver; the Arcot rupee of 166·5 grains pure silver, when first coined at the mint of Fort St. George; and the Lucknow rupee of the Vizier of Oudh, containing 165·2 grains pure silver when it was adopted for coinage at the Farukhabad mint. The *sikka* rupee was the principal standard of value. Besides these there were also various gold coins—the gold Mohur of Bengal, the old Bombay Mohur, the Bombay gold rupee, various pagodas of Madras (*e.g.* the Star pagoda, the old pagoda and the Porto Novo pagoda), also the gold rupee, half rupee and quarter rupee, which took the place of Madras pagodas under a Regulation of 1818. So profitable was the business of money-changing that some bankers took to it exclusively. These were called *Podars*, or money-changers, as distinguished from other bankers who were known as *Shroffs*. In 1835 a uniform currency was established in the whole of British India, when the Madras rupee, approximately equal in value to that of Bombay and Farukhabad, weighing 180 grains, out of which 165 grains were pure silver, was adopted as the standard for the whole of the Company's dominions in India.[1] As a result of this important currency reform this department of the banker's business was considerably reduced. But money-changers were not altogether wiped out of existence, for they still continued to exchange the principal coins for the subsidiary ones and *vice versa*.

[1] The Silver and Gold Coinage Act (Act XIX of 1835).

With regard to them Cooke makes the following interesting observations:

'We have the *shroffs* and *podars* exercising a separate vocation. The inferiors of the class generally sit in booths in the large throughfares, or most frequented places, where they exchange silver for copper or copper for silver at a small profit. The superiors almost exclusively confine themselves to the purchase and sale of foreign coins, the value of which fluctuates with the supply and not infrequently, yields them a handsome profit.' [1]

Attitude of Indigenous Bankers. We have seen that the effect of the early European wars in India was, on the whole, unfavourable to an indigenous banker's business. We have also seen that the currency reform of 1835 introduced by the British administration caused a curtailment of his functions in an important direction. But we have yet to see the effect of early European banking institutions in India on the indigenous system of banking. Broadly speaking, it may be said that the indigenous banker maintained a separate existence without forming any connection with the early European banks. The reason is not difficult to give. Each system had a distinct and separate existence, because each had its own particular function. The indigenous banker concerned himself with the granting of credit to the agriculturists and the artisans and the financing of the internal trade of the country, while the early European banks confined their activities almost entirely to the three Presidency capitals, providing remittance and deposit facilities, chiefly made use of by Europeans, and financing the external trade. So the two kept apart and no concerted effort was made to co-ordinate them, although, after a time, indigenous bankers found it profitable to increase their capital resources by borrowing from the Presidency banks, and latterly from the Imperial Bank, or to act as sureties for other borrowers from these banks.

[1] *The Rise, Progress and Present Condition of Banking in India*, by C. N. Cooke, Calcutta, 1863, p. 6.

Its Consequences. The attitude adopted by the indigenous bankers towards the new system resulted, in course of time, in serious consequences. These two important members of the Indian money-market have remained in mutual ignorance of the doings and methods of each other. This ignorance has been unfortunate for both. The indigenous banker has continued in his old ways without profiting from new experiments. His technique has not been developed, and in its higher branches his craft is obsolescent. The new banking institutions, on the other hand, have not been able to assimilate the time-honoured traditions of the soil on which they are planted. They have not entered into the lives of the people by penetrating into the villages, which hold the teeming millions of India. Very little attention has been paid to the operations of the indigenous bankers, although without taking account of them no description of the Indian money-market can be considered complete, no satisfactory remedy of the banking ills can be devised.

It is therefore a question of great practical interest and importance at the present time, whether it is desirable, in the interests of the industrial and economic life of India, that this division between the two systems should continue. It is contended by some that the working of these institutions side by side, usually not in contact with one another, is a great handicap to the progress of Indian economic regeneration. Is this a correct representation of the situation? According to the way in which this question is answered, Indian statesmanship must plan the future of indigenous banking. The consideration of this problem must be preceded by an analysis of the system as it exists to-day.

CHAPTER II

STRUCTURE AND FUNCTIONS OF INDIGENOUS BANKING

1. NUMBERS AND DISTRIBUTION.

IN the first chapter a distinction has been drawn between 'bankers' and 'money-lenders.' It may now be asked, what is their numerical strength ? No precise answer can be given. In the Census the classification acording to occupation contains no separate groups entitled 'bankers' and 'money-lenders.' All that we find are statistics of the total numbers (including employés) engaged in banking, money-lending and allied activities. Bank managers, money-lenders, exchange and insurance agents, money-changers and brokers are enumerated in one group. The numbers of this group in 1921 were 344,135 This figure is an over-statement of the actual facts, for at the time of the Census every one whose family has anything to do with money-lending likes to be, and often is, returned as a banker. Bearing these considerations in mind, some idea of the geographical distribution of the bankers and money-lenders may be obtained from the map facing the first page, on which are shown the numbers of the above group in the various provinces, expressed as percentages of the population. On the map are also indicated the principal centres of indigenous banking and the distribution of the banking castes of India.

2. BANKING CASTES.

This brings us to the question as to whether the profession of banking is confined to any particular caste or castes ? The answer is that it is and it is not.

Money-lending. So far as money-lending is concerned, any one and every one takes to it. A member of any caste who may have a little money in hand can hardly resist the temptation of lending it out to neighbours, so as to supplement his usually limited income by the interest thus earned. Retired Government servants are not infrequently to be found doing this business. Cases are numerous in which masters assist their domestic servants with small loans, deducting the interest and a portion of the principal every month, till the whole debt is wiped away. Indian ladies, especially widows, are adepts in this kind of transaction or in advancing money against the security of gold and silver ornaments. It is said that the women in the Punjab are remarkable for their skill in the latter operations.

Banking. But with indigenous banking, as distinguished from mere money-lending, the case is different. Of the four well-known castes of India, viz., the *Brahmana*, the *Kshatriya*, the *Vaishya* and the *Sudra*, the principal caste engaged in banking is the *Vaishya*. Among the *Vaishyas* are included the *Jainas*, *Marwaris* and *Chettis* who are the most important bankers in India. Next to the *Vaishyas* there are, in the Punjab, the *Khatri* and the *Arora* bankers. The *Khatris* claim to be the *Kshatriyas*, while the *Aroras* are one of their sub-castes. But these castes and sub-castes are all referred to alike as the 'banking castes' in the following pages.

The Vaishyas. Taking the *Vaishyas* first, their banking operations cover the whole country and they are also the ubiquitous money-lenders. There is hardly a commercial town in which they are not to be met with. Their function, according to the caste system, is to engage in trade. Most of the internal trade and commerce of the country is, at present, in their hands. Usually simple and unostentatious in their habits, they lead a life of thrift and economy which sometimes degenerates into niggardliness. But, for all that, they are the most forward in spending large sums of money

in acts of public utility or charity. They have a regular habit of setting aside a certain percentage of the profits accruing from business to be spent in religious charity. This fund is known as the *Dharmkhata*.[1]

The Jainas. The Jainas, known in some places as the *Sravakas* or *Saraogis*,[2] are the followers of an ancient religion, which is distinct from both Buddhism and Hinduism. Their religion enjoins them to lead a simple life, with the ideal of having as few wants as possible. They are extremely courteous, polite and hospitable. A Jaina saint is a model of plain living and high thinking.

The Jainas are among the richest communities in India, and are well-known for their munificence in religious matters. Their temples are famous throughout the country for their architectural beauty and their costliness. The Jaina temples on Mount Abu are unrivalled in minute delicacy of carving and beauty of detail. They are built entirely of white marble, although there are no quarries of that stone within three hundred miles [3]

In recent years there has been a tendency to apply some of their charitable funds to education and works of public utility. Schools and hospitals have been founded in many places. Sir Seth Sarup Chandji Hukam Chandji has opened no less than nine institutions in his town. He was the only individual in India to contribute a crore of rupees to the Indian War Loan Fund.

Being largely traders the Jainas are scattered all over the country, but most of them belong to Rajputana, the Bombay Presidency and the Bombay States, including Baroda.

The Marwaris. The *Marwaris,* who are either *Jainas* or *Vaishnavites*,[4] come from the Marwar State of Rajputana and

[1] It is called *Magamai* by the *Chettis*.

[2] *Saraogis* is a disfigured form of the Sanskrit word *Srāvakas* by which the Jaina laity are known in the Jaina scriptures.

[3] See above, p. 10, and below, p. 71.

[4] The *Vaishnavites* are the *Vaishyas* who worship *Vishnu*.

Central India. The majority are settled as permanent residents in central India, but some of them travel from one place to another in search of business. Quite a number of *Marwari* merchants and bankers have migrated to trade centres like Bombay and Calcutta, whence they return home either when trade is slack or to perform religious ceremonies.

The Chettis. The *Chettis,*[1] sometimes called *Chettiars,*[2] or *Nagarathas,* are the well-known trading and banking caste of southern India and also of Burma. Among the *Chettis* the *Puvaththukudi Chettis* are small traders and money-lenders. They travel about the country with small bags on their shoulders and may be likened to gipsies. But of all the *Chettis,* the *Nattukottai* [3] *Chettis* are the most important as bankers. They have a reputation throughout the land for their spirit of adventure and enterprise, for their natural shrewdness and ability and for their acts of munificence.

Of the *Nattukottai Chettis,* it may be said without exaggeration that they are the most charitable class in southern India, well-known for liberally endowing temples and spending on religious ceremonies. They especially worship Siva and spend large sums of money in the construction of new, and the repair of old, Siva temples in the belief that Siva gives them wealth.

This to a student of Indian economics may not appear as a well-directed channel of charity, but apart from the pro-

[1] The name *Chetti* is used both to denote a distinct caste and also as a title. *Chetti* is Tamil for a merchant.

[2] *Chettiar* is the plural of *Chetti*—usually an honorific plural.

[3] There is some doubt as to the significance of this term. Some hold that it is derived from the word *Nattukottai* itself, which means a country fort. Others say that it is a corruption of *Nāttarsangkottai,* the name of a small village near Sivaganga (*Castes and Tribes of Southern India,* by E. Thurston, Madras, 1909, vol. v. p. 252). It may be that the word comes from the Sanskrit expression *Navakoti,* meaning owner of nine crores. I understand from Sirdar M. V. Kibe, Deputy Prime Minister of Indore State, that his grandfather, a great banker, was called *Navakoti Nārāyan,* on account of his immense wealth, and so were other big bankers for the same reason. I am also informed that the persons engaged in banking in Maharashtra were formerly called *Naiks,* a word which is now used as a surname without necessarily implying a banker.

vision for temples and ceremonies, the establishment of Choultries (rest-houses), poor houses, Vedic and Sastric *Pathshalas* or schools is also, as Thurston testifies, due in many cases to their generosity. The Albert-Victoria Hospital in Madura is supported mainly by annual subscriptions from the *Nattukottai Chettis*.

Like the Jainas the *Nattukottai Chettis* are also known for their riches. There seems to be little doubt about their being well-to-do, for the income-tax returns from the Madura district appear to be much higher than from most other districts in the Madras Presidency. This, according to the Madura District *Gazetteer*, 'is largely due to the presence, in the Tiruppattur and Tiruvadanai divisions of Sivaganga, of large numbers of the wealthy *Nattukottai Chettis*. A special Deputy Collector has recently been appointed to relieve the deputy tahsildars and the Divisional Officer of the heavy work connected with the assessment to the tax of these people, whose accounts and methods of business are complicated and who trade all over India, Burma, Ceylon, and the Straits Settlements.' [1]

To their training, banking methods, and organization we shall return presently, but it will not be without interest to note here a few facts regarding their every-day life. They have the remarkable custom that the married members of a family do not take their meals together. All live in the same house, but they cook and eat their food separately. So strict are the *Chettis* in the observance of this rule that not even a widowed mother can dine with her married son or daughter. The rule, however, does not apply to the unmarried members of the family, who live with their parents till such time as they are married. With the *Nattukottai Chettis* marriage is not only a religious duty and a social function, but is also an occasion for economic independence and liberty. Rice and other necessaries are distributed

[1] *Gazetteer of the Madura District*, vol. i. p. 213.

usually once a year to the several semi-independent members of the household. This custom explains the existence of the huge houses in which the members of a *Nattukottai* family usually live all together. It also shows how business-like and economical these *Chettis* are, even in their family arrangements and in their daily life, as compared with other banking castes, for example, the *Vaishyas*. In the case of the latter, the married members of the family, as a rule, not only live together, but also cook in common. This is especially the case, when the married members are not themselves earning, but depend upon one or two members of the family who do earn. With the *Chettis* every married member is supposed to live on his own, with the *Vaishyas* all the married members live a common life—all benefiting in the gain and suffering in the loss that befalls to any individual member. The manifest result is that the *Chettis* are independent and self-reliant, the *Vaishyas* dependent upon one another. But the members of both castes possess in common a natural aptness for distinguishing themselves in business.

The Kshatriyas. Next we have the *Khatris* and the *Aroras*—the two of the three banking castes of the Punjab, the third being the ever-present *Vaishyas*, who are strong in the eastern Punjab. The *Khatris* claim to be *Kshatriyas*, the second of the four Indian castes which we have already enumerated. They constitute a trading community in the north, next in importance to the *Vaishyas*. Though spread over the province, they are mainly to be found in the central Punjab, whence they control the finance of much of the commerce of India with central Asia, Afghanistan and Tibet. They take for sale commodities like carpets, shawls and rugs to Yarkand, Kashgar and other trading centres beyond the north Indian frontier, and bring back raw silk, raw wool, livestock and salt. In the south of India, the *Khatris* are well-known dealers in silk thread and dye-stuffs.

The *Aroras*—a sub-caste of the *Khatris* and nicknamed

Kirars [1]—are the important money-lenders and bankers of the western Punjab. According to Darling, the *Arora* plays a predominant part in the economic life of the villages. He frequently owns land, which he farms well. ' Even when he does not actually drive the plough, he looks after his land with care, and any improvement to be found in his neighbourhood is generally due to his capital, industry and thrift. He will turn his hand to anything that promises gain and may be found weaving baskets and mats, beating out vessels of copper and of brass, working as a goldsmith or even plying the tailor's needle and thread.[2] Energetic and enterprising by nature, he has migrated into Afghanistan and even into Central Asia. An *Arora* thus renders useful services in several capacities, as a trader, a money-lender and a banker, not only inside his native country, but even outside it.

The Multanis and the Rehtis. Then we have some minor banking castes such as the *Shikarpuri Multanis*, who flourish in Sind, and the *Rehtis*, called *Bohras*,[3] who are to be found working chiefly in Gujrat and in the north-west of the United Provinces.

The Mahomedans. The Mahomedans, being forbidden by their religion to receive interest, are conspicuous by the almost negligible position which they occupy to-day in the Indian banking community. Although it is impossible for them to avoid payment of dues to others, they have not, as a rule, taken to the business of money-lending or banking themselves. Certain Mahomedans trading in cloth and

[1] The word *Kirar* means a coward and is even more contemptuous than the word *Bania*. The *Aroras* resent being called *Kirars* just as the *Vaishyas* resent the name *Bania*.

[2] *The Punjab Peasant in Prosperity and Debt*, by M. L. Darling, 1925, p. 214.

[3] The term *Bohra* is applied firstly to the *Brahman* money-lenders from Marwar and secondly to the *Sheikh* traders in Gujrat, who are said to have been converted to Islam about 600 years ago. There is a common saying that a *Bohra's* ' Good morning ' is like a message from the angel of Death. The word *Bohra* comes from the same root as *beohar* or the Sanskrit word *vyavahara* meaning trade. In some hilly tracts in India, a money-lender or shop-keeper is called a *Bohra*.

grocery as wholesale merchants occasionally engage in banking as well, but very few are bankers qua bankers.

But in recent years, economic forces have been making their influence felt, and a change is taking place in the attitude of the Mahomedans to the principle of accepting interest, particularly in the Punjab. In that province the bulk of the agricultural population is Mahomedan, whilst most of the money-lenders are Hindus. When the co-operative movement was started there, with a view to alleviating the sufferings of the borrowers, the Mahomedans at first held back from joining the credit societies as members, because they would not be a party to the earning of interest on advances. In a short time, however, the prejudice began to give way to the pressure of economic conditions, and now the highest Mahomedan authorities support their co-religionists in their becoming members of the co-operative societies. Indeed, so marked has been the change in the outlook that, according to Darling, 'the Punjab Mahomedan is beginning to take interest like the ordinary money-lender.' [1]

The Pathans. Finally, mention may be made of the itinerant Pathan money-lenders, who come into India from across the border and have no fixed homes. Their customers are generally small folk such as labourers, syces [2] and other menials.

3. ORGANIZATION.

An analysis of the structure or organization of a mechanism is necessary for the proper understanding of its working, but in the case of the Indian indigenous banking system such an analysis is not an easy matter. For the system is not an organized whole, in which one part can be seen properly connected with another.

[1] Presidential Address at the Indian Economic Conference, January, 1928 (*The Pioneer Mail*, 6th January, 1928, p. 3).

[2] Grooms and stablemen.

The Village Money-lender. At the lowest rung of the ladder, we have the village money-lender, who lends money to the needy inhabitants of the village and advances corn or seeds to the village cultivators. These money-lenders are of two kinds. First, there are the rich *Mukhias*, or village leaders, who often own land and make loans in cash or kind to their less fortunate brethren. Secondly, there are the professional money-lenders whose prime business it is to deal in loans. Even the latter are not exclusively money-lenders, for they combine with money-lending some other businesses, as will appear presently. Among these are included the traders in cattle, who deserve special mention on account of their importance in selling cattle on credit to the cultivators.[1] Both kinds of village money-lenders rely on their own capital. Neither, as a rule, uses negotiable instruments, such as *hundis* or cheques. The professional money-lenders sometimes have for use deposits in the shape of money left with them by their clients for safe custody or advances made to them by the town money-lenders or bankers but this deposit business is too uncertain and on too small a scale for it to justify a claim to the title of a ' banker.'

The Town Money-lender. Next in the scale come the town money-lenders. These also may be divided into two main classes. First there are the small money-lenders, whose business is confined to the limits of the town and neighbouring suburbs. Secondly, there are the bigger money-lenders, whose firms often bear the names of their ancestors and who have their branches or agents in various other towns in the country. These are the most difficult to classify, because the scope of their business varies greatly, ranging from that of a money-lender pure and simple to that of a banker. Some of them are purely money-lenders on a large scale. Others occasionally draw *hundis* on their branch offices, but are mainly engaged in money-lending. Yet others are clearly

[1] See below, p. 95.

bankers, inasmuch as they deal in *hundis*, although they do not perform the other main function of a banker, the receiving of deposits at interest.

The Banker. This brings us to the final class of bankers, the *Marwaris*, *Jainas* and *Nattukottai Chettis*, who are the representatives of the highest development of indigenous banking in India. Their offices and branches are spread all over the country in important centres like Calcutta, Bombay, Delhi, Rangoon, etc., where they have their *munims* and *gumashtas*,[1] or agents, who look after their business. The *munims* are invested with very wide powers. They are not highly paid, but their industry, integrity, and efficiency are remarkable and proverbial. They submit periodical returns and reports of their doings to their head offices and receive from them occasional instructions. Some of the bankers even have correspondents outside India, at Aden, Djibuti in Africa, Addis Ababa in Abyssinia, Paris, in Japan and other places.

Of all the indigenous bankers the *Nattukottai Chettis* are the most perfectly organised. Thurston observes that 'the *Nattukottai Chettis*, in organisation, co-operation and business methods are as remarkable as the European merchants. Very few of them have yet received any English education. They regard education as at present given in public schools as worse than useless for professional men, as it makes men theoretical, and scarcely helps in practice. The simple but strict training which they give their boys, the long and tedious apprenticeship which even the sons of the richest among them have to undergo, make them very efficient in their profession and methodical in whatever they undertake to do.'[2] A *Nattukottai Chetti* is a born banker. From his earliest childhood he is brought up on the family traditions

[1] A *munim* or *gumashta* is the name for an agent or a correspondent or a mere clerk.

[2] *Castes and Tribes of Southern India*, by E. Thurston, Madras, 1909, vol. v. p. 252.

of thrift and economy. When a male child is born in a *Nattukottai Chetti's* family, a certain sum is usually set aside to accumulate at compound interest and form a fund for the boy's education. As soon as he is ten or twelve, he begins to equip himself for the ancestral profession. He not only learns accounting and the theory of banking, but he has to apply his knowledge practically as an apprentice in his father's office. Thus, in a *Chetti's* training, the theory and practice of banking are not divorced from each other, but go hand in hand, from the very start. When a boy is married he attains a responsible position in the family. Though, being a member of the joint Hindu family system, he may not make a separate home, yet he must bear his own financial burden. He is allotted a share in the paternal, or ancestral, estate and he must live on it. He alone enjoys all that he may earn and suffers for all that he may lose. So he naturally grows self-reliant and ambitious, with a keen desire to build a fortune for himself. So great is this craving for making money that even the ladies among the *Nattukottai Chettis* work hard and earn money in various ways, by making baskets, for example, or by spinning thread. Strict economy is scrupulously practised, and every little sum saved is invested at the highest rate of interest possible. It is a common saying with the *Chettis* that, if a rupee is lent at 12 per cent. compound interest at the birth of a child, it will amount to a lakh of rupees, when he or she attains the age of a hundred. So particular are the *Chettis* where money is concerned that, according to the stories current about them, if they have a visitor—even a relative—staying with them longer than a day, he is quietly presented with a bill for his board at the end of the visit.[1]

The *Nattukottai Chettis* have their business headquarters in the Tiruppattur and Devakottai divisions of the Sivaganga

[1] I have personally noticed these practices among some bankers at Indore.

and Ramnad *zamindaris* in the Madura district. Those of them who are not rich enough to trade on their own account act as agents or assistants to the members of their own community. They are often given large sums of money, perhaps as much as a lakh of rupees, and the only security taken is an unstamped receipt on a piece of palmyra leaf. But this informal method is now being given up and paper receipts are required. The pay of the agent varies according to the distance from the head office of the place to which he is sent. For instance, a man who goes to Madura will receive R. 100, while another who is posted in Burma will be earning R. 300 p.m., and so on. Generally the agent's term of office is three years. Before he completes it, a new agent is sent to learn the work under him for six months. On the expiry of three years' service, he returns to give an account of his stewardship and to enjoy the company of his wife, who seldom accompanies her husband abroad. He has to offer his services, in the first instance, to his last employer, but, if the latter does not need them, he is free to work anywhere he likes. Usually he is given a share in the profit in addition to his pay, provided he displays energy and industry. In time he accumulates some capital and starts his own business, employing others as his agents. The *Nattukottai Chettis* have extensive business connections not only in India and Burma, but also in the Straits Settlements and Ceylon, Saigon, Mauritius and South Africa; some of them have correspondents even in London and on the Continent.

The *Marwari bankers*—mostly Jainas—have a similar system of business training and organization. Very few of them are educated on western lines and fewer still are acquainted with English commercial practice, but the way in which they conduct their business is remarkable. Gifted with a natural knack for trade, the *Marwari* boys quickly learn their arithmetic and accounting and start work in their family shops, where they soon pick up the necessary tech-

nique. To give an instance of their efficiency, while an English educated graduate of an Indian university may take five minutes to work out on a piece of paper the compound interest on a given sum, the *Marwari* boy will get an answer correct to the nearest pie mentally, without the aid of pen and paper, in less than half a minute. Of course they are unfamiliar with the modern progress in their craft which is taking place in foreign countries, but, in their own sphere, they are by no means wanting in capacity.

Inter-connection between Town and Village. The village money-lenders, at present, work on an individual basis, each working independently of one another. Sometimes the members of a joint family may club together into a private partnership, but this is not frequent. The town money-lenders and bankers are also private individuals, working on their own account, though in many towns there are private partnerships managed by the senior partner. Every firm is distinct and separate from the other.

As regards the inter-connection between the village money-lenders and the town money-lenders and bankers, there is no definite link, but the point of contact arises in the following manner. Some town money-lenders advance money to the professional money-lenders of the village for financing agricultural operations, on the customary understanding that the latter will sell the produce to the former. This system of finance is explained more fully later on, when we come to consider the financing of agriculture.[1]

Bankers' Associations : Mahajan. While the indigenous bankers all act independently, it is interesting to note that there exist, both in the north and south of India, guilds of big traders and bankers which are often styled the *Mahajan.*[2] These guilds are of ancient origin. Though a great portion

[1] See below, pp. 50-52.

[2] *Mahajan* is a Sanskrit word meaning 'a great man.' It is now indiscriminately applied to a banker or money-lender, particularly in north India.

of their activities are concerned with various religious and social matters affecting their members, they also settle trade disputes and often function as insolvency courts. Their constitution is quite simple. Usually a prominent *Seth*, or banker, is elected chairman and his *gumashta*, or clerk, convenes the meeting. Decisions are arrived at on democratic principles. As very little is known about such guilds, two examples, one from the north and the other from the south of India may be given here.

Gyarah Panch. In Indore there is one such institution, called *Gyarah Panch* ('Eleven Leaders'). Eleven leaders are elected by various sections of the Indore public, subject to the approval of His Highness the Maharajah, who usually accepts the names sent to him. These eleven leaders form an insolvency court and are authorised to act as liquidators, and their decrees are recognised by His Highness's government. Whenever a man becomes bankrupt, they take over the disposal of his property and distribute the proceeds among the various creditors or claimants. This institution has been in existence for more than a century. It has proved of great assistance to the bankers and functions well. It also controls dealings in cotton and levies a small *ad valorem* fee per transaction for the charitable fund which it administers for the benefit of the poor and destitute.

Kovilvasal Mariyal. Another interesting institution is the *Kovilvasal Mariyal*, the well-known temple council of the *Nattukottai Chettis*, who are remarkable for settling their disputes among themselves without recourse to law. Every temple has a manager, an assistant manager and a servant known as a *vairavi*. The parties at variance reduce their points of difference to the minimum and then lodge their complaints with the manager, who convenes a meeting of the council, before which both the complainant and defendant appear, the evidence being recorded by the manager. If the accused fails to attend, the *vairavi* recovers the *adavi*, or

security, by going to his house and attaching some article belonging to him. The council adjudicates on all matters relating to marriages, monetary transactions, family disputes, etc. The award is given orally and never in writing. As a rule the decision is readily accepted. Those who do not abide by it are not granted the garland from the temple, without which no marriage can be celebrated.[1]

Modern Associations. In modern times, the indigenous bankers have formed a few associations, which within limits are doing good work. In Bombay, for instance, they have several well-organised associations, viz., the Bombay *Shroffs'* Association, the *Marwari* Chamber of Commerce, the Commission Agents' Association and the Multani Bankers' Association. These associations render a valuable service in bringing the bankers together and binding them to one another in their common interest. Joint meetings of the various bodies are held to confer upon questions affecting all.

The Association of the Multani Bankers fix the 'Bazaar rate,'[2] after taking into consideration the Imperial Bank of India *hundi*[3] rate. Meetings of the Association are held every Sunday, when topics of common interest are discussed.

The Associations have another field of useful activity, in which they are daily engaged. From day to day, they dispose of many disputes among their members, who would otherwise have recourse to the law courts. The Bombay *Shroffs'* Association alone, it is understood, settles on an average twenty to twenty-five disputes per day. They have printed forms, on which the points of difference are noted down, together with the names of the parties at variance. The secretary of the Association then investigates the matter and writes down his award, which is usually accepted

[1] This account is taken from Thurston, *op. cit.* p. 263.

[2] The 'Bazaar rate' is the rate at which the small traders' *hundis* are discounted by the bankers.

[3] The Imperial Bank of India *hundi* rate is the rate at which the Imperial Bank discounts or re-discounts first-class three-months' bills.

by both parties. In the event of their taking the case into court, which rarely happens, there is little chance of obtaining a reversal of the award, for it is arrived at after careful scrutiny, as a result of personal knowledge and inquiry.

4. FUNCTIONS.

Functions of an Indigenous Money-lender. Having considered the organization of the bankers and the money-lenders, we may now proceed to examine the functions of each. Taking the money-lender first, his functions, generally speaking, consist in making advances. He lends money, corn, seeds, or cattle to agriculturists, or to persons connected with land, on the security of produce or other moveables or of immoveables, or on no security other than personal. He often makes advances against standing crops. He also lends in cash or kind to persons other than agriculturists.[1]

And of an Indigenous Banker. An indigenous banker, in addition to carrying on the operations of a money-lender, receives deposits, either on current account or for fixed terms, on which he allows interest, gives cash credits and deals in bills of exchange—*hundis* of both kinds, demand and usance. This is what a modern European bank also does, but it must not be supposed that the two are alike in the nature or scope of their business. They differ in several respects.

An Indigenous Banker and a modern European Bank. In the first place, not all the indigenous bankers receive deposits and such deposits as are received form a very small proportion of the bankers' resources.[2] Modern banks, on the other hand, generally depend upon deposits as the main part of their working capital.

Secondly, while both the indigenous banker and a modern European bank allow withdrawals against deposits, the

[1] See below, Chapter III.

[2] Similarly in England, deposit banking, according to Gilbart, 'does not appear to have been carried on until the year 1645' (*The History, Principles and Practice of Banking*, by J. W. Gilbart, 1901, vol. i. p. 23).

withdrawals in the case of the former are usually in cash and in the case of the latter by cheques. Some indigenous bankers do issue cheques and pass-books, but these vernacular cheques have only limited local circulation, they have no validity outside the place of issue, and they are not, as a rule, accepted by the joint-stock banks or the Imperial Bank of India.

Yet another point of difference between the business of indigenous money-lenders and bankers and that of a modern bank lies in the fact that the former, unlike the latter, are not, as a rule, exclusively devoted to the business of 'money-lending' or 'banking.' The great majority of indigenous money-lenders and bankers combine with it various other businesses. In this connection, it may be of interest to note that the combination of banking with other businesses has also been a feature of early European banking. The Lombards, the early Italian merchants who settled in England in the fourteenth century, combined the art of the goldsmith with the business of the banker. Even in the nineteenth century, the separation of banking from other businesses was not yet complete. For example, Messrs. Lubbock & Co. were engaged in banking along with other business as late as 1841.

Allied Businesses. Now we come to the question as to what allied businesses the indigenous bankers and money-lenders carry on. The answer is that they are engaged in almost every line of industry, trade and commerce. They are grain dealers, general merchants, commercial agents, brokers, goldsmiths, jewellers, land-owners, industrialists and traders. They also act as bailees of goods and as trustees or agents, frequently as trustees for religious and charitable purposes.

The allied businesses are, more often than not, primary, and the business of money-lending occupies a secondary position. This tendency has become more pronounced in

recent years. The change may be accounted for by two facts. In the first place, it appears that the indigenous bankers, in consequence of their antiquated methods, the unification of the modern currency system, the provision of remittance facilities and the formation of credit societies, have been losing ground in banking and have had to fall back upon other means of earning a livelihood. In the second place, with the improvement in industry, trade and commerce, which is undoubtedly taking place in India, the indigenous bankers' business in these channels is naturally extending.

The combination of allied businesses with banking is found all over the country, but the nature of such businesses varies from province to province. In the United Provinces, the Central Provinces, Delhi and elsewhere, the money-lenders and bankers are also the biggest merchants trading in grain, cloth and precious metals and speculating in these commodities. They purchase grain, oil-seeds, etc., at the time of harvest and store them till the prices rise, so as to get a margin of profit. To save the corn from rotting or being eaten by worms, it is often kept in *khattis* (granaries). One such grain pit may be sold in succession to at least a dozen persons and on the agreed date the differences are settled between them.[1] Some of the bankers are also the managers and proprietors of sugar or flour mills and glass factories.

In Bengal and Behar and Orissa, the *mahajans*, or *paikars*, as they are called, are also managers and directors of Indian and European exporting firms, or owners of silk factories and jute, flour and oil mills. In Bombay and central India, their

[1] I came across this practice not only in my native town, Meerut, in the United Provinces, but also in the Central Provinces. For example: *A* may contract with *B* to sell his grain pit, containing 50 *manis* of grain, at R. 25 per *mani* to the latter on 5th June. Now *B* may enter into a contract with *C* that the latter shall purchase the pit on 5th June, at R. 27 per *mani*, and so on. On the fixed day the dues are settled and the differences paid to the persons entitled to them.

dealings in cotton and seeds and their speculation in produce and share markets are very important. They are flourishing traders and commission agents, purchasing and selling cotton in large quantities on their own and their customers' behalf. They are also jewellers and piece-good merchants and dealers in opium and grain. Only a few men, with a capital of fifty thousand rupees or more, do money-lending business exclusively. Similarly in the Central Provinces, the bankers derive most of their income from sources other than banking. Generally they are the biggest wholesale traders, dealing especially in cotton and to a less extent, in grain. They are also the most important factory, mill and mine owners. As retailers they mostly deal in cloth or gold and silver.

From personal inquiries in the Central Provinces as well as elsewhere, it has appeared that in most cases a money-lender or a banker is also a land-owner, the acquisition of land having often been the natural result of his money-lending business. The security which he accepts is usually agricultural land, some of which passes into his hands and in course of time he finds himself a *zamindar*.

In the villages a money-lender is also a petty shopkeeper, a purchaser of rural products or, in recent years, an agent of firms in the neighbouring towns. Very often he is the local *zamindar*, owning land and cultivating on his own account.

The bankers qua bankers are not many in India as compared with the bankers-cum-traders. The two striking examples of the former are furnished by the *Nattukottai Chettis* of Madras and the *Multani* bankers of Bombay. The *Nattukottai Chettis* confine their activities to banking and money-lending. The *Multani* bankers are especially dealers in *hundis*, carrying on extensive business, which yields them good profits.

Financing of Trade and Industry. The bankers are the indispensable feeders of the trade and industry on which

depends the prosperity of a country. If an instance were necessary, England, France, America, Germany, Japan, in fact every prosperous country of the world, would instantly furnish it. But the case of India is peculiar. Taking the finance of industry first, it may be said that large-scale industries are not assisted by the indigenous bankers either in an adequate measure or in a satisfactory manner. If we ask for the reason, it will be found to lie partly in the bankers' ignorance and partly in their out-of-date methods. Some indigenous bankers and most money-lenders prefer to hold aloof from modern large-scale industries, simply because they know little about the finance and organization of these institutions, which lie outside the traditional lines of their business. Others are not able to render assistance, because their deposit business is too small and uncertain.

Deposits with Industrial Concerns. In Indore, Bombay, Ahmadabad, Calcutta and other industrial centres, the practice has grown among the bankers of making deposits for fixed terms with the mill industries. But capital subscribed by the public or loans and cash credits from the joint-stock banks are the main sources of funds for the mills, though these deposits are of considerable assistance.[1] In Indore the cotton mills are the most noteworthy and important borrowers. They need large amounts of circulating capital, a great portion of which is supplied by means of attracting fixed deposits and loans secured and unsecured. On an examination of the balance sheets of the Hukam Chand Mills Ltd. and the Rajkumar Mills Ltd.—to take two big mills of Indore—it would appear that roughly about one-third of their total liabilities in one case and more than one-half, in the other, were those on account of fixed deposits and

[1] No statistics as to the amount of indigenous banking money invested in mills are available. Even the Report and Minutes of Evidence of the Industrial Commission (1918) contain no figures on the subject. Private inquiries have met with little success, for mill-owners do not wish to disclose what they regard as trade secrets.

loans from private individuals.[1] The following figures in this connection may be interesting :

EXTRACT FROM THE BALANCE SHEET OF THE HUKAM CHAND MILLS, LIMITED, INDORE. (31ST DECEMBER, 1924.)

CAPITAL AND LIABILITIES.

	Rs.	A.	P.
Loans Secured.			
(By a lien on the liquid assets of the Company).			
The Imperial Bank of India, Indore (including interest) - - - -	7,22,874	9	1
Loans Unsecured.			
Fixed Deposits - - - - -	29,32,859	3	6*
Others - - - - - - -	16,43,947	10	4
Total - - - -	52,99,681	6	11
The *Total Liabilities* were - -	Rs. 1,20,01,665	15	3

(* This sum includes Rs. 2,00,000 from a joint-stock bank, the Bank of Indore, Ltd.)

EXTRACT FROM THE BALANCE SHEET OF THE RAJKUMAR MILLS, LTD. (30TH JUNE, 1925.)

CAPITAL AND LIABILITIES.

	Rs.	A.	P.
Loans Secured.			
Imperial Bank of India. (By a lien on cotton) - - - -	2,57,201	13	7
Loans Unsecured.			
Fixed Deposits - - - - -	7,70,311	5	3*
Others - - - - - - -	26,25,064	12	6
Total - - - -	36,52,577	15	4
The *Total Liabilities* were - -	Rs. 64,20,642	13	4

(* Nothing from joint-stock banks.)

[1] From personal inquiries I discovered that these private individuals often happened to be the promoters of the concerns themselves. In several mills which I visited, the bulk of the loans were found to have been advanced by them. This is again an instance of a combination of banking with industrial business.

The fact of the matter is that these mills, on account of their large and prosperous working, inspire confidence among money-lenders and bankers, who are willing to invest their money in the mills as fixed deposits, at a rate of interest which is usually 7 or 7½ per cent., but varies according to the conditions of demand and supply in the money-market. Sometimes the rate is even 8½ or 9½ per cent., but this is only when the working of the mills is regarded as dubious. These deposits are renewable on the expiry of the period stipulated—usually two months. This affords an opportunity to the money-lender to withdraw his money and invest it more profitably, either in another mill which inspires greater confidence or offers better terms, or elsewhere ; or he may allow the deposit to remain where it is for a further period, either at a higher or the same rate of interest, as the case may be. Usually the mills are averse from raising the rate, because it adversely affects their credit in the market, and they rather try to raise money by attracting deposits from other people at the same rate or by issuing debentures.

The advantages to the depositors of this system of fixed deposits are manifest. They receive a fairly good rate of interest, their money is moderately safe, and they have a periodic option to change the form of investment. The mills also derive a certain amount of benefit, for the large funds they need cannot all be raised in the form of shares.

The system is, however, not free from serious defects. One great disadvantage from which the mills suffer is the uncertainty which characterises this method of finance. The mill may suddenly find all its deposits withdrawn and be thus involved in acute financial stringency. But there is a still more weighty objection to this mode of financing industrial concerns. The system runs counter to the modern principles and practice of banking which make a clear distinction between short-term credit and long-term credit. Industrial firms, from their nature, need long-term

credit, which cannot and should not be met by short-term deposits from individual bankers. The bankers ordinarily must keep their resources liquid and cannot afford to lock up their funds in industrial concerns. The financing of industrial undertakings is a matter for special banking institutions, designed, and able, to offer long-term advances.

But what the indigenous bankers might do to help industrial firms, which they do not do at present, is to make advances for short periods on the security of goods under their control. I understand that the cotton mills at Indore raise loans from the local branch of the Imperial Bank of India or the Indore Bank, Ltd., in large sums against the security of cotton. The cotton godowns are handed over to the charge of the bank and the bank deputes a clerk to keep watch over them. As cotton is needed by the mills week by week, they deposit money in the Imperial Bank and cotton is permitted to be taken out of the godown in measured quantities. The terms are settled beforehand and interest has to be paid on at least half the credit allowed by the bank, whether the provision is made use of or not. The bank's position is quite secure, as it holds the cotton godowns, against which it advances money or grants credit. The mill, on the other hand, is not obliged to keep large balances of money lying idle. It takes money from the bank, when necessary, purchases cotton and places it in charge of the bank and, as cloth is manufactured and sold, the sale proceeds are sent to the bank and more cotton taken out of the godown for manufacture. The whole system works smoothly.

Cottage Industries. As regards the financing of cottage industries, money is usually advanced to the artisans by the money-lenders. As a rule, the artisan has little money of his own. He is consequently compelled to borrow and goes to the local money-lender. His household utensils or his wife's silver or brass ornaments are the only security he can offer. Often he takes loans on personal security. In any

case, he has usually to accept the terms of the money-lender. Whoever may be at fault, the fact remains that the money-lender's terms are such as to leave little to the borrower out of the fruits of his labour, and it would not be far from the truth to say that he lives, works and dies, as a bondman of the money-lender.

The above remarks are fully borne out by the way in which the weaving industry, to take one example of an important cottage industry, is financed in northern India. The village weavers obtain loans from the money-lenders in order to maintain their families till their produce is ready for sale. The money-lenders make it a condition of the bargain that the weavers shall sell the cloth to them at special rates. Clearly the weaver stands to lose twice over. Not only does he have to pay a very high rate of interest,[1] but he has to sell his entire product at a price which is considerably lower than the market rate. The weaver is always in debt, and unable to extricate himself from the control of the money-lender, who is always careful to maintain it. Cases are known in which the weavers are threatened, insulted and even beaten for attempting to sell their output to other persons on better terms.

Agriculture. The financing of agriculture, the primary industry of India, is almost entirely in the hands of the indigenous money-lenders and bankers. The village money-lenders advance money and grain to the cultivators often against a standing crop, often against no security other than personal. The methods of making loans are peculiar and various and are described in the following chapter. The indigenous bankers do not help the agriculturists directly. But some town bankers grant credit to the village money-lenders against rural produce.

The position of the cultivator, in regard to the terms of the loans, is in no way better than that of the artisan noticed

[1] See below, Chapter IV.

above. If anything, the cultivator is in a worse plight. In recent years, the co-operative credit societies have been doing good work, but their usefulness is limited by the situation in the country. We shall return to the examination of this subject when we discuss future policy in regard to indigenous banking.

Internal Trade. Turning to the financing of the internal trade of India, the credit again goes to the indigenous banker. He enables the agricultural and industrial products of the country to be brought to the markets, not only by acting as a commission agent, but also by issuing demand *hundis* to the traders, or by discounting their *hundis,* thus enabling them to send money to trading centres.

A few illustrations will perhaps bring out clearly the part which the indigenous bankers and money-lenders play in the finance of the internal trade of the country. It may be pointed out at the outset that there is no uniform system for the whole country. The methods vary with the nature of the commodities dealt in and with the habits, literacy and pecuniary circumstances of the buyers and sellers.

Distribution of Crops. Taking the internal trade in agricultural products first, broadly speaking, two methods may be said to be prevalent. Firstly, there are the small and uneducated village cultivators, who usually sell their produce to the village trader who also happens to be a money-lender, and to whom they are generally indebted for advances made either at the time of sowing the crops or afterwards. The village money-lender pays his customers for the produce in cash, but deducts, in part or in whole, the money lent to them. He then sells some of the purchased produce in the village for local consumption and the surplus to a town trader (again a money-lender or a banker), who, in his turn, enables the surplus to be distributed to neighbouring towns as required. It is at this point that *hundis* are sometimes

drawn on the purchaser and discounted, although quite often transactions are done in ready cash.

Secondly, there are numerous *mandis* or exchange marts—each patronised by a set of neighbouring villages—to which the more enlightened producers or those who are not bound to money-lenders, as well as some village money-lending traders who buy crops from their customers, bring their commodities for sale. In these trading centres prices are determined by free interplay of the forces of demand and supply, which does not always happen in the villages. To these marts come a variety of buyers, the town traders, the agents of indigenous banking houses buying on their own account, or on behalf of customers, and the representatives of exporting firms. Payments are made usually in cash, which necessitates large amounts of money being brought from one trading centre to another, either by rail or by river. In this connection, the Registrar of Co-operative societies, Assam, observes : ' I have seen *Marwaris* travel first class in Railway trains with large cash with them for the sake of safety. . . . All the large country boats that come up the Brahmaputra every year, seemingly empty, to take down local produce, bring up large amounts in cash for purchase of the produce. Fortunately there are no river pirates in Assam and the police are more efficient and vigilant.' [1]

Distribution of Other Goods. Turning from the internal trade in agricultural products to that in manufactured goods, the indigenous banker or money-lender is again found performing a useful function. Take, for example, a cloth merchant in a town, say Meerut in the United Provinces. He needs to purchase cloth for his business, but has only limited capital of his own. If he is a petty retail shopkeeper, he usually obtains a loan from a local money-lender, buys

[1] Extract from a letter of the Registrar of Co-operative Societies, Assam, to the Chief Secretary to the Government of Assam, dated the 1st April, 1926 (*Legislative Assembly Debates*, Official Report, 31st January, 1927, vol. ii. p. 239).

with it cloth from a bigger merchant in the town or Delhi, a neigbouring large trade centre, sells the cloth and from the sale proceeds pays off his creditors. But if he be a larger merchant, he arranges to get goods from big trade centres through the local *aratias* or brokers. The merchants deposit some cash with the brokers and the brokers, who are also bankers discount their customers' *hundis* or grant them credits in their books, purchase goods from the wholesale dealers of their town and consign them to their customers. The *aratias* usually make a good profit out of the business, for they charge their customers *arat* (brokerage) as well as interest on the book credits allowed or discount on the *hundis* discounted and, in addition, receive trade discount from the wholesale dealers on the goods purchased for their customers. The brokers usually employ their own funds in the business, but when the busy season arrives and they find the demands upon them exceeding their resources, they raise money by endorsing their customers' *hundis* and re-discounting them with the joint-stock banks. Of this more, when we come to consider the relationship between indigenous banking and joint-stock banking.[1]

External Trade. The indigenous banker, though playing an important part in the internal trade of the country, has little to do with the financing of the external trade, except in so far as he moves the crops to the port from which they are exported. The financing of external trade is almost entirely carried on by the branches of the large British, colonial and foreign exchange banks which have their head offices in London or other foreign financial centres.

Until lately the working capital of these Exchange banks was raised outside India. During the last few years they have adopted the policy of borrowing funds in India, instead of abroad. This is clearly brought out in the following table :

[1] See below, pp. 175 *et seq.*

DEPOSITS IN INDIA OF THE EXCHANGE BANKS, 1913-1925.[1]

	£(1000)
1913 (Pre-War Year)	23,276
1914	22,611
1915	25,159
1916	28,529
1917	40,031
1918	46,392
1919	55,769
1920	56,105
1921	56,397
1922	55,038
1923	51,332
1924	52,976
1925	52,909
1926	53,658

This is as it should be. The first effect seems to have been to divert a portion of the capital which has been available for financing the internal trade of the country to the assistance of its foreign trade, with the result that an additional though temporary strain has been put on the resources of the indigenous bankers. But in the long run such a policy is bound to encourage banking and investment habits among the Indian people.

[1] *Statistical Tables relating to Banks in India*, 1926, p. 1.

CHAPTER III

METHODS OF INDIGENOUS BANKING

I. LOANS.

Promissory Note. The methods of an indigenous money-lender or banker are diverse and interesting. His most common method is to lend money on a written promissory note. A person in need of money goes to a money-lender, settles the rate of interest with him and obtains the loan, after writing out a promissory note promising to pay on demand the principal and the interest which is mentioned. On the following page is a specimen of a promissory note written in *Marathi* and used in the Central Provinces. The promissory notes used in the United Provinces or other parts of the country [1] are similar in substance but in different languages.

The promissory notes, or pro-notes, have to be stamped with British postage stamps of one, two, three, or four annas, according as the loan is under R. 250, between R. 250 and 500, between R. 500 and 750, or above R. 750 respectively. The money-lenders often require sureties, called *zamins*, to attest the pro-note, but this is not insisted upon for small amounts. If, however, sureties are required and they cannot be produced, loans are granted at much higher rates of interest.

Rasid. In some cases, no pro-notes are given, but *rasid*, or receipts, acknowledging the loans are signed. In these the rate of interest agreed upon is stated. On page 58 are two such specimen receipts.

[1] In common parlance in the Punjab a promissory note is sometimes called a *hundi*.

PROMISSORY NOTE.

प्रामिसरी नोट.

श्री राम चन्द्र प्रेस, अमरावती

॥ श्री ॥

नंबर तारीख

संमत १९२ मिती ______

रा. रा. ______

______

रा. ______ ता. ______ जि. ______ यांस

प्रामिसरी नोट लिहून देणार ______

______

ऊपरी आज रोजीं आम्ही आपणा जवळून नगदी

रुपये अक्षरीं ______ दरमहा

दर शेकड़ा व्याजानें शिक्के कलदार घेतले आहेत.

हे रुपये आपण ज्यावेळीं मागाल त्यावेळीं आपणांस देऊ किंवा आपण दुसऱ्या कोणास देववाल त्यास देऊ.

दस्तुर

सही ______

[TRANSLATION.]

PROMISSORY NOTE.

Shri.

No.................. Date (English) ....

Samvata (Indian Year)........................Date (Indian)............................

To Mr...

inhabitant of .... Sub-district ....

District .... in whose favour the writer of the promissory note is...(name of the debtor).

This day I have received in cash rupees .... in words ....at interest at the rate of .... per centum per mensem. That amount I promise to pay to you whenever you demand, or to pay to the person in whose favour you order.

Signature ....

SPECIMEN RECEIPT.

(१) टीप लिख दई नाम ____________ को

येते नाम ____________ आपर नगदी

लये ____________ अंकन ____________ ताका ब्याज

____________ माहवारी ____________ ताका दिया

मिती ____________ दः ____________

दः ____________

गः ____________ गः ____________

(२) चिट्ठी लिख दई नाम ____________ येते

नाम ____________ नगदी लये कल्दार ____________ ताका

ब्याज ____________ मिती ____________ सम्वत्

दः ____________

टिकट

[TRANSLATION.]

RECEIPT.

Writing passed in favour of ....
by .... From you I
have taken in cash .... in words..
its interest.. per mensem. For which reason
this receipt is given.

Date (Indian) ....*Samvata* (Indian Year)......................

Signature..

Witness .... Witness ....

Stamp ....

Another Form of Receipt.

Written in favour of ....
By .... Received in cash ....
in words .... Interest..

Date .... *Samvata* (Indian Year) ....

Signature ....

Stamp.

Dastavez. Another form of security against which loans are made are *dastavez*, or bonds. They are written out on stamped legal forms and are duly executed. Their special feature is the recording in writing of all the conditions of the loan in detail, *e.g.* higher rates of interest in case of non-payment on due date. The bonds are much used therefore in cases where it is considered safest to have all the terms stated explicitly in writing.

Ticket Bahis. The *Ticket Bahis*,[1] or stamp books, so called because stamps have to be affixed therein, provide yet another popular method of lending money. The system is similar to that of modern book credits and is prevalent chiefly in Central India. In these *bahis* the borrowers pledge their signatures to repay the loans they take, but neither the conditions nor the rates of interest are mentioned, for that is not customary. Only verbal contracts regarding these are made.

Rahan. One other common method of lending money is on *rahan*, or on mortgage of landed property or houses.[2] This is a system prevalent almost everywhere in the country. Money can always be obtained on the security of property, usually up to one-half of the market value, at a very advantageous rate of interest as compared with that of a simple loan on personal security, as described above, and, as a rule, large sums are not to be obtained except by means of mortgage. The mortgage deed, called *rahan nama*, is duly registered by the Registrar or Sub-Registrar of the district in which property is situated. In the mortgage deeds are noted the dates of payment of instalments of the money, with accrued interest and their recoveries are watched accordingly.

There are many kinds of mortgage in vogue, but the two principal classes are, firstly, the ordinary mortgages, in which

[1] *Bahi* is the term for an account-book kept by indigenous money-lenders and bankers.

[2] This is called *Najar gahan* in southern India.

the property is mortgaged, but possession is not given to the mortgagee and, secondly, the usufructuary mortgage.[1] The characteristic of the latter kind is that the borrower makes over a part of his property, which is occupied by the creditor, who receives the profits therefrom as interest, so long as the principal is not repaid. Sometimes the money-lender allows the borrower to rent the land from him.

The usufructuary mortgage is again of two kinds, ordinary and that known as *zarpeshgi*. In the latter case, the mortgagor is entitled to any surplus in the income from the mortgage over and above the stipulated interest, which surplus in the ordinary usufructuary mortgage is retained by the mortgagee.

Conditional Sale. A condition may be attached to a usufructuary mortgage that, if the money is not paid within the stipulated period of time, the transfer shall become absolute and unredeemable.[2] In the event of there being no such condition, the borrower can recover his lands on repayment of the loan. The usufructuary method is not so common as the ordinary mortgage system.

Patta Patawan is another form of mortgage in which possession of land is given to the mortgagee for a fixed term of years at the end of which the property reverts to the mortgagor free of all encumbrances.

Suttuwa-Puttuwa. Another interesting kind of mortgage which is practised in Behar, is called *Suttuwa-puttuwa.* Its special feature is the ease in the repayment of the loans by the borrowers who pay off by equal annual instalments spread over several years. The payments are made on what a modern banker would term the amortization principles applied in their simplest form. The instalments are paid

[1] It is called *sudbharna* in *Behar.* It is sometimes known as *bhog bhunduk*, as opposed to *drishti* or *disti bhunduk*, where possession of land is not given.

[2] The indigenous names are *tabe-gahan*, when the land can be recovered on payment of the debt, and *muddat kharedi*, when the land lapses to the lender, if the loan is not paid within the time stipulated.

at the *end* of each year, not at the *beginning*, and every instalment is used first for the redemption of the interest on the unpaid capital and the balance is applied to the reduction of the principal. Thus this method gives a reduced principal and a smaller interest charge at the end of each year.

Then again, money may be lent on a personal bond or on a mortgage deed, but in both cases with a discount. For example, a deed may be executed for R 1,000 to be paid after five years, the lender giving the borrower actually R. 700 only, the balance of R. 300 being deducted beforehand on account of interest. The Mahomedans, who do not like to be charged with the sin of taking interest, often adopt this method.

Kist. Yet another system, which is found in the United Provinces (especially Moradabad, Meerut, Saharanpore and adjoining districts), the Punjab (Gurgaon, etc.) and other parts of the country, goes by the name of *kist*, or instalment system. The system is also known as *banaj*, or *rehat*, or *rehti*, after the *Rehtis* or *Bohras* who carry it on in the northwest of the United Provinces. The returns, if the business prospers, are enormous, almost fabulous. Money is advanced in multiples of ten rupees, *i.e.* R. 10, 20, 30, and so on, the borrower, or *asami*, as he is generally called, contracting to pay back twelve rupees, in instalments of one rupee per month, for every ten rupees lent. Sometimes the first instalment is deducted at the time the loan is contracted. Thus a man giving a note for R. 10, to be paid back in twelve instalments of one rupee each, would actually receive in cash only R. 9, the first instalment of one rupee being deducted. In some cases, R. 10 are repayable in six instalments of R. 2 per month. Money is advanced on entries in an account-book, no bond or pro-note being taken from the debtor. This used to be the invariable rule, but in more recent times, some debtors having denied the receipt of money and suits having been dismissed, it has become the

practice to take a thumb impression of the borrower on a separate account-book, or to enter into a written contract. The debtor feels that the mode of repayment is very convenient to him, as the burden is spread over a number of months. This system is therefore a favourite with the poor classes, who need petty loans and find it relatively easy to repay them in small instalments. *Lakhs* of rupees are invested in this business; in fact this is a good source of income to the rich *Vaishyas, Khatris* and *Bohras*, in places where the system prevails.

A specimen of the form of contract executed is shown on p. 64.

Rujahi. Another instalment system [1] is called the *rujahi* ('daily'). According to this, a man borrowing R. 30 on the first of a month has to repay R. 32 in all in instalments of one rupee daily. Sometimes R. 2 as interest are deducted in advance, the debtor being paid only R. 28 and being required to pay back R. 30 in instalments of one rupee daily.

Hath Udhar. An interesting method of lending money in which the credit is entirely given by word of mouth on both sides, no written documents being used and no witnesses being present, is the *hath udhar* or legally termed the *dast gurda*.[2] No written *chits* are demanded; hence it is restricted in its use to loans for very brief periods and to persons whose credit stands very high and who are intimately known to the money-lenders. People usually swear by the sun or the moon or their children, and such oaths may never be broken, as it is solemnly believed that the sin of default may cause the greatest disaster.

[1] The same principal can be seen working in different localities in different ways. For instance, I visited a village called Siwait in the United Provinces and noticed that money is lent there on the *nau-das* or 'nine-ten' system. The borrower receives nine rupees and pays back ten in instalments of one rupee daily.

[2] *Hath udhar* or *dast gurda* literally means loan by hand.

TAMASSUK KISTBANDI.

तमस्सुक क़िस्त बन्दी

मनके अ. ब. स. .... वल्द क ख घ जात ..... साकिन .... का हूं। जो कि मनमुक़िर ने मुब्लिग़ १२ रु. कि निस्फ़ जिसके ६) रुपये होते हैं बज़रूरत ख़र्च .... (कारबार) .... पास से लाला .... इस तरह पर कि मुब्लिग़ १०) नक़द व मुब्लिग़ २) बाबत सूद क़र्ज़ लिये हैं। पस इक़रार करता हूं कि मुब्लिग़ाने मज़कूर बहिसाब मुब्लिग़ १) रुपया महीना मुद्दत एक साल में अदा और बेबाक कर दूंगा। कुछ उज्र न होगा। दर सूरत खिलाफ़ वर्ज़ी या अदम अदायगी किसी एक भी क़िस्त के दायन मज़्कूर को अख़्तयार होगा कि कुल रुपया अपना एक मुश्त मेरी ज़ात ख़ास व जायदाद मनक़ूला और ग़ैर मनक़ूला मेरी से जिस तरह पर चाहे वसूल कर ले। मुझको कोई उज्र न होगा। लिहाज़ा यह चन्द कलमें बतरीक़ तमस्सुक के तहरीर कर दिये कि सनद हों और बवक़्त ज़रूरत काम आवें।

अलब्द दस्तखत

अ. ब. स.

तहरीर .... गवाह शुद ________________

मुताबिक .... गवाह शुद ________________

सन १९२७

बक़लम ....

[TRANSLATION.]

I .... A B C .... son of .... Caste.................... resident of .... Whereas I the executant (literally the 'promiser') have borrowed the sum of twelve rupees, which is twice of six, for my business necessities from Mr. .... made up of ten rupees cash and two rupees advance interest on the aforesaid sum. Therefore I hereby promise to pay off and liquidate the aforesaid sum by monthly instalments of one rupee cash within the period of one year. There shall be no objection to this on my part. In case of default or in the event of any of the instalments remaining unpaid, the aforesaid lender shall have the right to realise the whole sum at once from my person as well as from my property, movable and immovable both, privately or through court (literally, 'in any manner he pleases'). I shall have no objection. Wherefore I have executed these few lines by way of a bond, so that they may serve as a record and be useful, when necessary.

Signature ....

Witness ....

Witness ....

Written on .... Corresponding to 1927

(Indian date) (English date)

Written by ....

Another instance of a transaction in which no written contract takes place, but only book entries are made, is furnished by the dealings of the bankers of Bombay in the bullion market. If a banker accepts a transaction on verbal instructions and records it in his books, such transactions will be treated by the courts as genuine. The contracts made for buying or selling *hundis* or bullion through the brokers are valid contracts though no written documents pass for such transactions.

Girvin. Yet another popular system of money-lending is *girvin*, or properly speaking, pawning, *i.e.* the lending of money against the pledge of gold and silver ornaments. A poor man or woman who is in need of money goes to a money-lender with some ornament or even some household commodity and pledges it as security for a loan. This occurs daily, and thousands of cases of borrowing in this manner go on among the villagers and small townsfolk. In the case of gold ornaments pledged, if the price of one *tola* of gold is R.25, a loan of R.15 would be given against it, so that the loan is given at the margin of R.10 per *tola* of gold. The amount of the loan differs according to the fluctuation in the market price of gold per *tola*.

Where silver ornaments are pledged, not more than R. 50 would be advanced for value of R. 100 received. In the event of the cover of 50 per cent. in the case of silver ornaments and 40 per cent. in the case of gold ornaments falling short, owing to fluctuation in the gold and silver price in the market, due notice is given to the debtor to make good the deficit.

Indian ladies, especially widows, used to do and still do, though to a less extent—a lot of this pawning business. Some of them learn to write a little in the vernacular, and they note or get someone to write for them, the date of the loan and the description of the ornaments received, on a piece of paper which they tie to the ornaments to which it relates. Most of them are absolutely illiterate, but they make some signs on

the walls of the house to help their memory, or else they remember the date without making any note or sign whatsoever. Their memory is remarkable, the note regarding the various rates charged in different cases being seldom made, but the details being always correctly remembered. They rarely give loans on personal security, except when they know the borrower to be very honest and that he is willing to pay a higher rate of interest. Household utensils, clothing, or other articles of daily use, are sometimes pledged, and accepted in place of ornaments, but the latter are preferred, and are the usual form of security. The ladies are very shrewd in this kind of business and hardly lose in a single case, because they always provide for a large cover of not less than 40 or 50 per cent., while accepting the ornaments. It is not infrequent that the pledged articles are not redeemed and the cover yields an extra profit.

Loans in Kind. Having dealt with the various methods of making loans in cash, attention must now be directed to the methods of loans in kind which are quite common in Indian villages. The usual system of loans in kind are known as the *sawaya,*[1] *dyodha,*[2] or *doona,*[3] prevalent all over the country. The cultivator who needs grain for sowing or consumption purposes takes it as loan from the village moneylender, contracting to pay at harvest time the same quantity plus 25 per cent. which is the *sawaya* (1¼ times) or 50 per cent. extra which is the *dyodha* (1½ times) or 100 per cent. extra which is the *doona* (double), irrespective of the period of time for which the loan may be taken. In some places, like Saugor in Central Provinces, when people borrow for the first time, they are charged *dyodha* (50 per cent.) in the first year, and *sawaya* (25 per cent.) in the next year.

[1] *Sawaya,* or *sewayi,* spelt in some old books as *sewayee,* means one and a quarter times.

[2] *Dyodha,* or *derhi,* spelt in some old books as *derhee,* means one and a half times.

[3] *Doona,* or *doon,* means twice.

Sometimes the money-lenders advance grain to the cultivators, convert the value of the loan from kind into coin at the current market price of the commodity, note in their *bahis* this price, and also the amount of corn or seed advanced, add to this the interest and receive back the principal and interest again in kind after converting the cash money into grain. The corn is sold through their *aratias* or agents at a profit. The fixing of the rates for converting the value of corn into money and *vice versa* is entirely at the discretion of the money-lender, who both ways takes a favourable rate.

Batai. An interesting system of loans in kind is what is called the *batai system,* in vogue among the *zamindars.* The *zamindar*-cum-money-lender helps the cultivator by advancing *bij* or seed and money for *khawai* or consumption as settled between the parties, and in return, when the harvest is reaped, after recovering the original seed and grain advanced for maintenance, he shares the produce with the cultivator, half and half. Out of his share the cultivator pays the labourers. The cultivators like this arrangement better than taking money on loan and working on their sole responsibility. The risks in this system are divided between the money-lender and the cultivator. If the market price of seed is high, the cultivator prefers the *batai* system to the ordinary loan system. If, however, seed is moderately cheap and the ground good, the farmer likes to produce on his own account, unless forced by adverse circumstances, *e.g.* inability to get a loan of money on profitable terms.

Lawani. Beside the methods described above, agricultural loans are sometimes given on condition that the borrower sells the produce of the crops when ready to the lender at a stipulated price, without regard to the price which may be current at the time of the delivery of the produce. This may be termed 'pledge of produce' or 'mortgage of the crops.' It is known as *lawani* (supply), since the debtor has to bring and deliver the produce.

Chaltu Khata. Lastly, mention may be made of the widespread practice of the sale of commodities to small people on credit. The shopkeepers who are also money-lenders open for their customers a *chaltu khata* or 'current credit account,' take account of the interest and risk involved, by charging higher prices, or giving inferior quality, or in both ways, and make up the account at the end of every month. The Mughal and Pathan pedlars who wander from place to place selling all kinds of odd wares, from cloth to medicines, are the worst type of such shopkeeper-cum-money-lenders. They have a clever knack of selecting ignorant and simple folk, come singly, or in batches of twos, as nice smiling people, induce their customers to buy clothing or other things for weddings or other festivities, and readily agree to take payment later on. They let things go for a time and suddenly in two or three months re-appear one day to exact their dues—three or four times the fair price—at the point of the *lathi* or stick—'nay, at the point of the knife,' [1] as Dr. Narung said in the Punjab Legislative Council.

2. DEPOSITS.

The deposit business which really distinguishes a banker from a mere money-lender is extremely limited in its extent among the indigenous bankers. There are some, mostly goldsmiths and landlords, who receive deposits and pay no, or a little, interest on them. Some bankers, *e.g.* the *Sarafi Basna* of the United Provinces, sell *hundis* on themselves and receive deposits for very short periods—a few days—which are payable on demand, but payment can be shifted for several days. For additional capital in times of stringency they do not look to deposits, but arrange with the joint-stock banks.

[1] I personally came across the case of a servant who had taken a loan of R. 20 from a *Pathan* money-lender, was paying him R. 2 per month, had paid R. 24 during one year and had still to pay R. 20. The money-lender had taken a new bond for R. 20 in which no mention was made of the past payments or of the rate of interest.

No statistics are available and it is difficult to estimate the amount of total deposits received by the bankers in the whole country, or even in any one province, just as it is almost impossible to arrive at any accurate or reliable estimate of the total amount of capital invested in indigenous banking in India. The question No. 19 was left unanswered by every one of those who were good enough to respond to the Questionnaire (Appendix II). Personal inquiries have met with no better results. The following remarks of Prof. Burnett-Hurst in regard to the difficulty of ascertaining the income of the bankers reveal the truth and would apply to the estimation of their capital or deposits as well.

'Most persons of the middle and upper classes will hesitate to disclose their income for fear of increased taxation. It is true that some may be prepared to make statements, but it will be to their interest to minimise their receipts. It is very doubtful whether it will be possible to ascertain the income of money lenders, money changers, etc., in large villages and towns. If compulsory powers are employed, the statements made would probably be purely fictitious.' [1]

The bankers in India mostly invest their own capital. They do not make it a regular business to attract large sums of money in deposits, and lend them at higher rates of interest than what they have to pay on the deposits, thereby earning the difference for the risk and labour.

3. HUNDIS.

The system of drawing *hundis* [2] has been in vogue from 'very remote times.' [3] A *hundi* is perhaps the oldest surviving form of a credit instrument. There is a legendary story that Vastupal Tejpal drew a *hundi* of ten crores [4] on

[1] *Note of Dissent*, by Professor A. R. Burnett-Hurst (*Report of the Indian Economic Enquiry Committee*, 1925, p. 116).

[2] *Hundi*, or *hoondee*, or *hoondy*, as C. N. Cooke writes, seems to be a corruption from the word *Hindi* or *Hindu*.

[3] C. N. Cooke, *op. cit.* p. 21.

[4] Ten crores = 100,000,000.

the *Nagar Seth* (' City Banker ') of Ahmadabad, and that the temples of Dilwara [1] were built with the money. Another legend of the times of Lord Krishna has it that Narsimha Mehta of Junagarh drew a *hundi* on Seth Samalsah of Dwarka about 2500 years ago. Again, it is said that Atmaram Bukhan of Surat, in the times of Sivaji, had extensive banking business, his *hundis* being honoured far and wide. His credit stood so high that a story is told about it. Once a person ran short of money while passing through a forest, but he happened to have with him the *hundis* of Atmaram Bukhan. He tied one of them to the branches of a tree. A merchant was passing that way, saw that it was the *hundi* of a great banker and cashed it then and there. In old days, when travelling with cash was even more risky than it is now, people kept with them the *hundis* of well-known bankers.

Definition. Although a *hundi* has existed from very early times, there is no legal definition of the term available. Section 5 of the Indian Negotiable Instruments Act of 1881 contains the definition of a ' bill of exchange ' which is applicable to bills, promissory notes and cheques. The *hundis*, as a rule, are deemed to lie outside the provisions of the Act. A *hundi* is governed by the time-honoured custom and usages of the various localities. It is only where no specific customs obtain that a *hundi* is treated as a ' bill of exchange ' within the meaning of the Act.

In simple words, a *hundi* may be defined as a written order—usually unconditional—made by one person on another for the payment, on demand or after a specified time, of a certain sum of money to a person named therein. This definition, it may be pointed out, differs from that of an English bill of exchange in one important respect. While an English bill *must* be an unconditional order, a *hundi may* not be so, *e.g.*, a *jokhami hundi*.[2]

[1] These are the famous Jaina temples on Mt. Abu, in Rajputana, noted for their wonderfully fine carving work. See above, pp. 10 and 29.

[2] See below, p. 78.

Functions. Again, it may be explained that a *hundi* is not quite an inland Indian ' bill of exchange ' which the existing text-books often make it out to be. One of its main functions is to enable one to get advances. A merchant who needs money may draw a *hundi* on his agent or firm or some one with whom arrangement is made beforehand. It is also a convenient form of remittance of money from one place to another. But in the financing of the trade of the country a *hundi* does not occupy the same position as a bill of exchange does in England. Under the English practice, a bill is drawn by an exporter upon a certain bank which, acting under instructions from the importer's bank, accepts such bills, provided they are drawn in accordance with the terms of the credit. Such bills invariably bear on them the evidence that they are drawn against actual goods duly dispatched from one trade centre to another and therefore afford a perfectly sound means of investment. Such a method of finance does not exist in the system of indigenous banking. The *hundis*, it may be emphasised, cannot, as a rule, command ready acceptance by a joint-stock bank, because there is nothing to show that they are drawn against commercial goods. The banks usually insist upon the endorsement of well-known bankers before dealing in small traders' *hundis*.[1] In actual practice, it may be pointed out, the *hundis* approximate more to cheques than to bills, although in legal phraseology they fall in the category of bills.

Darshani and Muddati Hundis. The *hundis* are of two kinds, *Darshani* (sight or demand bills) and *Muddati*, sometimes called *Miadi* (deferred or usance bills), *i.e.*, bills payable after a stipulated period of time mentioned in the *hundi* and reckoned from the date of drawing.

Illustrations. The drawing of a *hundi* is a simple affair. It will be clear from the specimens given on pp. 74 and 76.

[1] See below, pp. 176 *et seq.*

Comparison and Contrast with an English Bill of Exchange. In its essentials a *hundi* is similar to an English 'bill of exchange. A *hundi*, like a 'bill,' has a drawer called *likhaiwala dhani*, a drawee called *uparwala dhani*, and a payee called *rakhyaiwala dhani*. Again, as in a 'bill,' so in a *hundi*, an amount certain in money is mentioned and it is payable either at sight or on a determinable future date. Furthermore, both instruments of credit are subject to stamp duty.

But points of difference arise in the forms of the two. To begin with, a 'bill' is a briefly-worded document written in a perfectly business-like style, but a *hundi* is in the form of a letter with salutations and words invoking divine blessings. These words, of course, vary with the religious sects to which the drawers belong. Again, in a 'bill,' the name of the drawer is given at the right-hand bottom corner, and in a *hundi* it is written in the actual body of the instrument. Then, in a 'bill,' the name and address of the drawee are placed at the left-hand bottom corner, but in a *hundi* the name is given in the body and the name and address on the reverse. Furthermore, the amount, in a 'bill,' is mentioned twice, once in figures at the top corner of the left-hand side and once in words in the body. The amount in a *hundi* occurs five times. First, at the beginning of the body it is given both in figures and words and then elucidated by stating 'the twice of R. . . . . .' Then at the back the amount is again given in figures within a small square, and below it the same is explained by the words 'one-fourth of the amount (is) . . . . .'

Sub-divisions. The *darshani* and *muddati hundis* are again sub-divided as follows :

- *Hundi*
  - *Darshani*
    - *Dhani-jog*
    - *Sah-jog*
    - *Firman-jog*
    - *Dekhan-har*
  - *Muddati*
    - *Dhani-jog*
    - *Sah-jog*
    - *Firman-jog*
    - *Jokhami**

A DARSHANI HUNDI.

नंबर

रुजु

॥ श्री ॥

सिद्ध श्री मुंबई महा शुभस्थान भाई

जोग श्री अमरावतीसुं सिंगई मोती लाल सुखचन्द का ________

बांचना उपरंच हुंडी १ रु.   अक्षरीं रुपया ________ का

निमे रुपये ________ का दूना पूरा इहां राखे भाई ________

पास पुगे तुरत पिछे नामे साहजोग ठाव ठिकाणा घर चवकस करके रुपया हुंडी चलन का देना ।

सं.   मिती ________ का.

दस्तकत

[TRANSLATION.]

No. ....

Presentation Date.

Shri.

To pleasant and prosperous town Bombay, the abode of merit therein to *Bhai* (brother) .... written from Amraoti by Singhai Moti Lal Khub Chand whose greetings you be pleased to accept. Further a *hundi* is drawn for R .... in words Rupees .... twice of R .... the double of which, in favour of *Bhai* (brother) ....

Immediately on the presentation of this *hundi*, you will (please) pay the amount thereof in current coin to the presenter, after ascertaining his respectability, title and address.

Samvata .... Date (Indian)................ Date (English).....................

Signature ....

A MUDDATI HUNDI.

श्री परमेश्वर जी ।

सिद्ध श्री मुंबई बन्दर शुभस्थाने पत्री श्री भाई मन्नालाल करोड़ी मल जोग लिखी मुंबई से रामपरसाद की श्री जुहार बाचना । अपरंच हुंडी किता १ आपके ऊपर करी रु. ५००) नीमे रुपया दो सौ पचास का दूना पूरा इहां रखा मूलचंद केसरीमल पास मिती चैत सुदी १२ से ६१ दिन पीछे पौंचे दाम की नामे धनी शाह जोग ठिकाना लगाय चौकस कर दाम देना । हुंडी लिखी मिती चैत सुदी १२ संवत १९८३ ————

On the Reverse Side.

नीमे का नीमे रुपया एक सो पचीस का चौगुना पूरा रुपया पांच सौ कर दीजो

$\boxed{\text{रु ५००)}}$

पत्री श्री भाई मन्नालाल केसरी मल

मुंबई

[TRANSLATION.]

Stamp.

No.

To the pleasant and prosperous town Bombay the abode of merit (therein to) *Bhai* (brother) Manna Lal Karodi Mal written from Bombay by Ram Prasad Uttam Chand whose greetings you may be pleased to read. Further a *hundi* for R. 500, in words five hundred, twice of rupees two hundred and fifty, is drawn upon you in favour of Mool Chand Kesari Mal on *Chait Sudi* 12. Sixty-one days after date you will (please) pay the amount thereof in current coin to the presenter after ascertaining his respectability, title and address.

Hundi written on *Chait Sudi* 12, *Samvat* 1983.

On the Reverse Side.

Rupees ....

One fourth of the amount (is) .... of (this) four times pay .... Full amount.

The *dhanijog hundi* is one which is payable to a *dhani*, or a person, as distinguished from the *sahjog hundi* which is payable to a *sah*, or a respectable person. The word *dhani* or *sah* is written, as the case may be, in the body of the *hundi*. The banker who cashes a *sahjog hundi* is responsible to see that the presenter is the proper person to get the payment, but no such liability attaches in the case of the *dhanijog hundis*. Nowadays the *sahjog hundis* are the more common.

The *firmanjog* hundi is one which is made payable to order, the word *firman*, which is written, meaning 'order.'

The *jokhami hundi*, which is drawn against goods dispatched, resembles an English 'documentary bill of exchange' and contains certain conditions, in accordance with which, if the goods are lost or destroyed in transit, the drawer or the holder of the *hundi* has to suffer the loss. The interests of the drawee of a *jokhami hundi* are thus carefully safeguarded, the risk of the loss of value in the transport of goods being transferred from him to the drawer, or the holder of the *hundi*, who buys it with full knowledge of the risk. The buyer of such *hundis*, therefore, acts as an insurance agent.

The *dekhanhar hundi* is one which is payable to the presenter or bearer. In it the word *dekhanhar* and sometimes even the English word 'bearer' is written in the vernacular.

All these kinds of *hundis* except the *dekhanhar* are of ancient origin. The *dekhanhar*, however, was introduced about the beginning of this century. The credit of its introduction belongs, to a great extent, to the *Shroffs'* Association of Bombay. All these *hundis* are current at the present time, but the *jokhami hundi* has fallen into disuse, in consequence of the establishment of insurance companies.

Advice of a Hundi. At the same time that a banker or merchant draws a *hundi* on a correspondent in another centre, he sends him an advice which is called *nakal*. In the *nakal*

NAKAL.

॥ श्री परमेश्वर जी ॥

॥ १ ॥ सिद्ध श्री मुम्बई बन्दर शुभस्थाने सर्वोपमायोग्य भाई ....
श्री अमरावती से सिंगई मोती लाल खूब चन्द की जुहार बांचना। अपरञ्च
हुंडी १ रु. ५००) की राख्या भाई .... पास मिती पूगा
तुरत की .... ऊपर की है। सो देनी लगे सिकार
दीजियेगा। चिट्ठी पाछे देवें काम काज लिखावें। सं

[TRANSLATION.]

Shri.

To pleasant and prosperous town Bombay, the abode of merit (therein to) *Bhai* (brother) ....
written from Amraoti by Singhai Moti Lal Khub Chand whose greetings you be pleased to accept. Further a *hundi* payable on demand is drawn for R. .... in favour of *Bhai* (brother) .... on ....
So on its presentation please make due payment thereof. Please write to us, if we can be of any service to you.

Dated ....

are clearly set out the name of the drawer, the amount payable, the name of the payee and the period of usance. Unless such advice be received and it tally in these essentials with the *hundi*, the *hundi* is not discounted by the drawee, but is kept in suspense, called *khadi*, for three days, within which instructions are obtained from the drawer by telegram. A specimen form of such advice is given on page 79.

Amount. The *hundis* may be drawn for any sums according to the requirements of the parties concerned. It is, however, striking that usually *hundis* are drawn for amounts like R. 200, 400, 800, 1000, 1200, 1600, and so on.

Usance. There is no fixed period of time for which a *muddati* (usance) *hundi* may be drawn, except that it rarely exceeds one year. In older times the usance was fixed for bills on different centres, according to the time taken in transit from one centre to another. Nowadays it all depends upon the convenience of the parties, although custom is still a governing factor in many places. The *muddati hundis* are sometimes classified according to the days for which they are drawn from 11, 21, 41, 51, 61, or even more or less days, up to 361 days. They are more largely used in central India, the Central Provinces, Bombay and Bengal than elsewhere. In the Central Provinces there are three accepted varieties, viz. (*a*) *iksathdini*, or of 61 days, (*b*) *eksovisdini*, or of 120 days, and (*c*) *baramasi*, or of one year. In central India, the *muddati hundis* drawn are usually of 45 or 61 days, in Bombay 41 days, in the Punjab 121 days, in the United Provinces 61 or 91 days, and in Bengal 61 days.

Days of Grace. Three days of grace are allowed in the case of English bills of exchange, but with the *hundis* they vary with the usance. No days of grace, or *gilas* to use the indigenous term, are reckoned, if the *hundis* are of less than 11 days' maturity. For *hundis* of 11 to 20 days' usance the days of grace permitted are 3, and for those of longer than 20 days' maturity they are 5.

Stamp Duties. The stamp duties on *hundis* are as under:

	R.	A.
1. *Darshani hundis* for amounts exceeding R. 20	0	1
2. *Muddati hundis.* (*Up to* 1 *yr. usance.*)		
For amounts up to R. 200	0	3
Exceeding R. 200 but not exceeding R. 1,600.		
For every complete R. 200, and any fractional part of R. 200	0	3
Exceeding R. 1,600 but not exceeding R. 2,500	2	4
Exceeding R. 2,500 but not exceeding R. 10,000.		
For every complete R. 2,500, and any fractional part of R. 2,500	2	4
Exceeding R. 10,000 but not exceeding R. 30,000.		
For every complete R. 5,000, and any fractional part of R. 5,000	4	8
Exceeding R. 30,000.		
For every complete R. 10,000 and any fractional part of R. 10,000	9	0
3. *Muddati hundis.* (*Exceeding* 1 *yr. usance.*)		
For amounts exceeding R. 10	0	2
,, ,, ,, ,, R. 10 but not exceeding R. 50	0	4
,, ,, ,, ,, R. 50 ,, ,, R. 100	0	8
Exceeding R. 100 but not exceeding R. 1,000.		
For every complete R. 100, and any fractional part of R. 100	0	8
Exceeding R. 1,000.		
For every complete R. 500 and any fractional part of R. 500	2	8

Endorsement and Discount of Hundis. After drawing the *hundi* in its proper form, it may be sold at the current rate of discount called *hundiyana* or *hundiyavana*. The *hundi* can be discounted and re-discounted any number of times and may be sent to distant places in the country, by means of endorsements at the back, before it is finally collected on due date. The discounting of a *hundi* is called *sakarana*. Every endorser of a *hundi* is liable to the holder for its payment,

but he can make a special endorsement called *sira* to the effect that, if the *hundi* is not cashed by the drawee, it may be presented for payment to a specified person. Such special endorsement enables its author to escape from liability, unless the payment is refused both by the drawee and the person intended to take the drawee's place. In the event of the double refusal, the special endorser has the same position as an ordinary endorser. Such an especially endorsed *hundi* is called a *jikri chiththi*.

Dishonour of Hundis. The dishonouring of *hundis* is 'an event of rare occurrence.'[1] If they are not honoured on due dates, the drawers are considered bankrupt. The drawee of the *hundi* may, however, refuse to accept it, if he does not hold any deposit for the drawer or no arrangement has been made for the acceptance beforehand. When a *hundi* is so invalidated, it is sent to an indigenous bankers' association at a centre such as Calcutta, Bombay, Madras, or Cawnpore—which puts its seal on it. The *hundi* is then returned to the drawer and he has to pay special charges called *nikrai sikrai* at one rupee per *hundi*, irrespective of the amount for which it is drawn. The drawer is also liable to this penalty, if the *hundi* is returned to him for some irregularity in its drawing.

Additional Copies. If the original *hundi* called *khoka* is lost, a second copy called *paith* is issued ; if even the second is lost, a third called *parpaith* is given ; and in the event of all the three being lost, a fourth called *maijar*, or *panchyati*, is provided. The last is so called because it is drawn by the *Pancha* (five leaders of the bankers) of the place of issue. A bill of exchange, on the other hand, is sometimes drawn in a set of three, called the 'First of Exchange,' the 'Second of Exchange' and the 'Third of Exchange.' The examples of the indigenous 'Second, Third and Fourth of Exchange' are given on pp. 84-89.

[1] Cooke, *op cit.* p. 15 ; also Shirras, *op. cit.* p. 341.

Hundis—the Best Form of Investment. The *hundis* afford an excellent source of investment to the indigenous bankers. Some of them do not draw *hundis* but purchase them. The *Multani* bankers of Bombay who specialise in this kind of business purchase the *hundis* drawn for two or three months. These are discounted at the rate of anything from 6 to 9 per cent. and are re-discounted with the Imperial Bank of India. The difference between the *Multani* banker's rate of discount and that of the Inperial Bank is the profit which he earns. The *hundis* are discounted both with the Imperial Bank and the Indian joint-stock banks, but not with the Exchange banks, which have nothing to do with this kind of business.

4. METHODS OF ACCOUNTING.

A few words may be said about the system of indigenous accounting, which is reputed not only for its antiquity, but also for its simplicity and efficiency. A town money-lender or banker keeps several account books called *bahis*, viz., a *rokad bahi* (' cash book '), a *nakal bahi* (' journal '), containing credit transactions, and a *khata bahi* (' ledger '). A village money-lender maintains the *khata bahi* and one *roznamcha* (' day book '), in place of the two *rokad* and *nakal bahis*.

In the *roznamcha* or the *rokad bahi*, on the left side, are entered the credit entries and, on the right side, the debit entries. At the end of each day both the sides are totalled and the cash compared. From these day books the names of the customers are carried on to the *khata bahi*. The pages and dates of the *roznamcha* or the *rokad bahi* are noted in the *khata bahi*. An index of the names is given at the beginning of the *khata bahi*, and on reference the account of any customer can be easily found and inspected.

In the *khata bahi* (' ledger ') there are various accounts which are called *khatas*. There are two kinds of accounts: personal, called *dhaniwar-khata*, and other called *shri-khata*. Some money-lenders keep these two kinds of *khatas* in two

PAITH.

न. २० पैठ

सिद्ध श्री मुंबई बंदर शुभस्थाने पत्री श्री भाई मनोहर लाल हीरा लाल जी जोग लिखी ललित पुर से मन सुख दास विरधी चन्द की श्री जुहार बांचना अपरंच हुंडी किता १ आपके ऊपर करी रुपया ५००, अंकन पांच सौ के नीमे रुपया दो सौ पचास का दूना पूरा इहां रखा राम चन्द चेनी राम पास मिती चैत सुदी १४ पौंच तुरत नामे धनी शाह जोग ठिकाना लगाय चौकस कर सकार दाम देना । मिती चैत सुदी १४ संवत १९८३ की लिखी थी सो ऊपर वाला धनी कहता है कि हुंडी खोई गई सो पैंठ आपके ऊपर लिखी सनद २ आपके ऊपर करी जिसमें १ सनद का दाम मुजरा देवेंगे । आप अपना रोकड़ नकल रोजनामचा सब बही देखकर सकारना । यदि हुंडी मकार गई होवै तो पैठ रद्द समझना और पैंठ सकर जावै तो हुंडी रद्द समझना । पैठ लिखी मिती वैशाख वदी १ संवत १९८३ ———

On the Reverse Side.

नीमै का नीमै रुपया एक सौ पचीस का चौगुना पूरा रुपया पांच सौ कर दीजो ।

रु ५००, पैठ

पत्री श्री भाई मनोहर लाल हीरा लाल जी कालबादेवी, मुंबई

[TRANSLATION.]

To the pleasant and prosperous town Bombay Port—the abode of merit—(therein to) *Bhai* (brother) Manohar Lal Hira Lalji written from Lalitpur by Mansukh Das Virdhi Chand whose greetings you be pleased to read. Further a *hundi* for R. 500, in words five hundred, twice of rupees two hundred and fifty, was drawn upon you by us in favour of Ram Chand Beni Ram on *Chait Sudi*, 14, to be paid on demand in current coin with due regard to (the qualifications) respectability, title, address of the payee. Now the aforesaid payee informs us that the *hundi* has been lost. Therefore this second document is being drawn upon you. Of these we shall be responsible for the amount of one. You will (please) consult your cash book, day book, and other account books, before making payment. If the *hundi* has been paid, the *paith* becomes cancelled, if the *paith* is paid, the *hundi* is to be regarded as void. This *paith* is drawn up on *Vaisakh Badi* 1, *Samvat*, 1983.

PARPAITH.

न. २० परपैठ

सिद्ध श्री मुंबई बंदर शुभस्थाने पत्री श्री भाई मनोहर लाल हीरा लाल जी जोग लिखी ललितपुर से मनसुख दास विरधी चन्द की श्री जुहार बांचना। अपरंच हुंडी किता १ आपके ऊपर करी रुपया — ५००) अंकन पांच सौ का नीमे रुपया दो सौ पचास का दूना पूरा इहां रखा रामचन्द वेनी राम पास मिती चैत सुदी १४ पौंच तुरत नामे धनी शाह जोग ठिकाना लगाय चौकस कर सकार दाम देना। मिती चैत सुदी १४ संवत १९८३ की लिखी थी। तथा मिती वैशाख बदी १ को पैठ भी लिखी थी। सो हुंडी लेने वाला कहता है कि पैठ भी खो गई। ये परपैठ लिखी सनद ३ आपके ऊपर करी जिसमें १ का दाम मुजरा देवेंगे। आप अपने रोकड़ नकल रोज़-नामचा बही देखकर सकारना। यदि हुंडी सकर जावे तो पैठ तथा परपैठ रद्द समझना और पैठ सकर जावे तौ हुंडी परपैठ रद्द समझना। और परपैठ सकर जावे तौ हुंडी पैठ रद्द समझना। परपैठ लिखी मिती जेठ बदी २ संवत १९८३ ———

On the Reverse Side.

नीमै का नीमै रुपया एक सौ पचीस का चौगुना पूरा रुपया पांच सौ कर दीजो।

पर पैठ

पत्री श्री भाई मनोहर लाल हीरा लाल जी कालबादेवी, मुंबई

[TRANSLATION.]

To pleasant and prosperous town Bombay Port, the abode of merit (therein to) *Bhai* (brother) Manohar Lal Hira Lalji written from Lalitpur by Mansukh Das Virdhi Chandji whose greetings you be pleased to read. Further a *hundi* for R. 500, rupees five hundred, twice of rupees two hundred and fifty, the double of which was drawn upon you by us in favour of Ram Chand Beni Ram on *Chait Sudi* 14, to be paid on demand in current coin with due regard to (the qualifications) the respectability, title and address of the payee. And a *paith* was also drawn on *Vaisakh Badi* 1. Now the payee of the *hundi* informs us that the *paith* is also lost. Therefore this third document is being drawn upon you. Of these we shall be responsible for the payment of one only. You will (please) consult your cash book, day book, and other account books, before making payment. If the *hundi* has been paid, then the *paith* and the *parpaith* are to be regarded as cancelled, if the *paith* is paid the *hundi* and the *parpaith* are to be taken as void. This *parpaith* is drawn on *Jeth Badi* 2, *Samvat*, 1983.

MAIJAR.

॥ १ ॥

सिद्ध श्री मुम्बई बन्दर शुभस्याने सर्वोपमा लायक सकल सराफे के पंच समस्त योग्य श्री ललितपुर से लिखी सकल सराफे के पंच समस्त का जुहार बंचना। अपरंच हुण्डी १ रु. ५००) की भाई मनोहर लाल हीरा लाल जी ऊपर लिखी यहां से मनसुख दास वृद्धि चन्द जी की, रक्खें रामचन्द बेनी राम पास मिती चैत सुदी १४ पूगा तुरत रुपया साह जोग हुण्डी चलन का जिसकी पैठ मिती बैसाख बदी १ और परपैठ मिती जेठ बदी २ दोयज को लिखी थी। परंतु रक्खे वाला धनी कहता है कि हुण्डी तथा पैठ तथा परपैठ तीनों ही खोई गई हैं। सो यदि हुण्डी पैठ तथा परपैठ तीनों ही खो गई होंवे, तो ऊपर वाले धनी का रोज़ नावों, खाता, नकल और रोकड़ चौकस तपास कर इस मेजर प्रमाणे सिकार दाम दिलाना। और जो हुण्डी, पैठ अथवा परपैठ तीनों में की कोई भी सिकर गई होवे, तो यह मेजर रद्द है; पढ कर फेर देना। सनद नग ४ ऊपर वाले धनी पर की है। जिनमें से नग १ के दाम मुजरेंगे। मिती ज्येष्ठ सुदी १ पड़वा।

द: १...

२...

३...

४...

५...

[TRANSLATION.]

To pleasant and prosperous town Bombay Port, the abode of merit, (therein to) the *Pancha* (five leaders of the bankers) written from Lalitpur by the *Pancha* (the five leaders of the bankers). Further a *hundi* for R. 500, rupees five hundred, was drawn here by Mansukh Das Virdhi Chandji on *Bhai* (brother) Manohar Lal Hira Lalji in favour of Ram Chand Beni Ram on *Chait Sudi* 14, to be paid on demand in current coin with the due regard to (the qualifications) the respectability, title and address of the payee. And a *paith* was drawn on *Vaisakh Badi* 1 and a *parpaith* on *Jeth Badi* 2. Now the payee of the *hundi* informs us that the *hundi*, its *paith* and *parpaith*—all the three are lost. Therefore if the *hundi*, the *paith* and *parpaith* are all lost, please consult the drawee's day book, ledger, cash and credit books, and then have this fourth document paid. If the *hundi*, or *paith*, or *parpaith* has been paid, then this *maijar* is to be regarded as cancelled and to be returned after perusal. This fourth document is drawn on the aforesaid drawee and we hold ourselves responsible for only one of the four documents.

(Signed) 1. ....
2. ....
Dated *Jeth Sudi* 1, 3. .... The Pancha.
Samvata, 1983. 4. ....
5. ....

separate *bahis*. In the personal 'ledger' are entered the personal accounts and in the general 'ledger' other transactions such as sale and purchase of commodities undertaken by the money-lenders on behalf of their customers.

Calculation of Interest. Some money-lenders keep a separate book for calculating interest called *sood bahi* or *vyaj bahi,* which may be translated as an 'interest book.' Interest is usually calculated on what is called the *katmiti* system. Receipts and advances are regularly entered in the account books and interest is charged on the daily balances.

Banking Scripts. The accounts are kept in different languages, scripts and numerals which vary not only from province to province, but sometimes, in the same province, nay, in the same town, from money-lenders to money-lenders. It is said that as many as fifteen thousand sets of numerals are prevalent in the Punjab alone. But the *mahajani* numerals are most widely used throughout the country, except Madras. The *mahajani* numerals are distinguished for their simple forms for vulgar fractions such as quarter-rupee, half-anna, quarter-anna, which are used in accounts.

Indigenous Banking Year. It may be stated here that the *mahajani* year, or the indigenous banking year, closes on the *Indian* date *Kartika Badi* 15 which falls in the month of October or November. In 1926, for example, the *Kartika Badi Amawasya* was 5th November, and in 1927, 26th October, when the last banking year closed. This last day of the banking year is a great Hindu festival called *Dipawali* or *Diwali*, meaning 'a row of lamps,' which is celebrated with great rejoicings. All the houses are washed and cleaned, they are lit in the evening with innumerable lights, the old *bahis* are posted up to date and worship is offered to the Goddess of Wealth, Lakshmi.[1] The following day of the

[1] '. . . the worship of the precious metals in some form is indispensable, as this is believed to be productive of wealth and prosperity throughout the coming year. The account books of the family or the firm are also brought out and worshipped, and many people open new account-books from this date' (*Hindu Fasts and Feasts*, by A. C. Mukerji, 1916, p. 141).

Dipawali, i.e. Kartika Sudi I, is the New Year's Day, when the indigenous banking year commences. On that day it is considered inauspicious to read or write. So the indigenous bankers, students and authors have it as a general holiday.

5. TRADE SIGNS, SECRETS AND SUPERSTITIONS.

Signs and Secrets. Like most traders the indigenous bankers have their own signs and secrets. They vary from place to place, every group of bankers having a separate code. For instance, in Kathiawar, the following is in vogue :

Kits = one,	*Goth* = four,
Dhar = two,	*Mul* = five,
Udhan = three,	and so on.

Another example of the special words for numerals is the following, used by a class of small traders and bankers in the Central Provinces :

Sang -	1	*Swan* -	2	*Ekwai* -	3	*Fouk* -	4
Budh -	5	*Dhink* -	6	*Pank* -	7	*Rakh* -	8
Nung -	9	*Mindhi* -	10	etc. etc.			

Furthermore, some bankers decide among themselves that the number spoken must be deducted from a certain fixed figure, say 100, to get the figure really meant, this secret being carefully kept. So that if 97 is said, it may actually mean (100-97) or 3, and so on.

I noticed a curious system among the cotton traders of Indore who are also bankers. They keep with them a piece of cloth, and whenever a trader wishes to transact some business with another, he spreads this cloth over his hands and brings the other party's hands also under the same cloth. Then the two proceed to talk in a quaint language, the actual offer of a transaction is made under the secrecy of the cloth, while the rejection or acceptance is made verbally. So that even if any one is hearing the conversation near by, he can have no idea as to the size or price of the bargain.

Superstitions. Like other traders again, the bankers and money-lenders are not free from superstitions. For instance, to utter the number seven in *Telegu* (*Yedu*) is regarded as unlucky, because it means weeping. So even an educated banker will, in place of seven, say 'six and one.' Then again, the *Hindus*, when counting, always begin with the Sanskrit word *Labha*, which means profit, instead of saying 'one.'[1] Similarly the Mahomedans start with *Bismillah* or *Barkat*,[2] as words invoking divine blessing.

[1] The Oriya merchants say *Labo* instead of 'one.'

[2] In Garhwal, they say *Bargad*.

CHAPTER IV

INTEREST CHARGES

1. RATES FOR LOANS AND DEPOSITS.

Loans in Kind. The indigenous rates of interest may in their fickleness be likened to the English weather. They vary from place to place [1] and time to time. Taking the agricultural loans first, their special feature lies in the fact that both the interest and principal are paid usually in kind. The rate of interest is often 25 per cent., 50 per cent., or even 100 per cent., in accordance with the system called *sawaya, dyódha* and *doona* in vogue, but here and there it may be more or less than these figures. These rates, it must be noticed, are not per annum but for the period of the loan, which is usually six months or even less, as the loan is contracted either at the time of sowing the crop or later, and is repayable when the crops are ready. It will thus be seen that the rates per annum are even higher than the rates given above. Such high rates prevail even where the co-operative credit societies are in existence, though in such places they show a downward tendency.

Cash Loans. The prevailing rates of interest on loans other than agricultural range from 8 to 12 per cent., in case of good security, and from 12 to 37½ per cent. per annum, when the security is inadequate. In cases of grave risk, the

[1] Cf. 'In Bengal it is said to be 36 per cent., in Eastern Bengal 37½ to 75 per cent., in the Central Provinces anything from 6 to 100 per cent., and in Madras 6 to 36 per cent.' (*Enquiry into the Rise of Prices in India*, by K. L. Datta, 1914, vol. i. p. 165). 'In Bombay the usual rate of interest paid by the mill-hands is 75 per cent.' (*Labour and Housing in India*, by A. R. Burnett-Hurst, 1925, p. 70).

rate is one anna per rupee per month, which is 6¼ per cent. per month, or 75 per cent. per-annum, and sometimes it is even as high as 12½ per cent. per month, or 150 per cent. per annum,[1] but the rate prevalent for loans advanced on personal security is *adhanni* or a half-anna per rupee per month, which is equivalent to 37½ per cent. per annum. The various rates of interest current in towns are :

R. 1, 1/8, 1/9, 2, 3, 3/2, 4/8, 4/12 per cent. per month; or 12, 18, 18¾, 24, 36, 37½, 54, 57 per cent. per annum.[2]

The usual rate charged by the *Pathan* itinerant money-lenders is one anna per rupee per week, which is over 25 per cent. per month, or 300 per cent. per annum.

Pawning. The rates of interest on loans against ornaments and valuables range from 7½ to 18 per cent.; in the case of gold ornaments, 7½ to 12 per cent.; in that of jewellery from 10 to 15 per cent.; and that of silver ornaments 18 per cent. per annum.[3] In the case of large sums the rate of interest diminishes on a sliding scale, the rate being scarcely more than 12 per cent. per annum, when the loans exceed several thousand rupees in amount. The rate on commodities such as clothes and utensils which are not regarded as good security is -/1/- anna per rupee per month or 75 per cent. per annum.[4]

Kist Rates. In the case of the loans on the instalment system, *i.e.* the loans of rupees ten (or its multiples), repay-

[1] Cf. '1, 2 and even 4 annas per rupee per month or 75 to 300 per cent. per annum are all well-known rates among servants, petty traders, etc.' (*Report Regarding the Possibility of Introducing Land and Agricultural Banks into the Madras Presidency*, by F. A. Nicholson, 1895, vol. i. p. 233).

[2] Cf. 'The rates of interest vary from 12 to 75 per cent., but a majority of the loans bear interest at 20 per cent. per annum.' (*Land and Labour in a Deccan Village*, by H. H. Mann, Study ii. 1921, p. 117).

[3] Cf. J. C. Jack gives a much higher figure for such loans, *i.e.* 36 per cent. compound being the normal rate' (*The Economic Life of a Bengal District*, by J. C. Jack, 1916, p. 101). This is not borne out, as a general rule, by the present inquiries.

[4] In the course of my inquiries I came across cases in which lower rates were charged, but in my opinion they were exceptions.

able in twelve instalments of one rupee per month, it will be noticed that the interest is not on a fixed sum of rupees, but on an amount which is diminishing every month by one more rupee and works out at about 44 per cent. per annum. Where rupees ten are repayable in six instalments of two rupees per month, the rate of interest comes out even higher —80 per cent. per annum. Interest from 37½ to 300 per cent. is charged on instalments in arrears.

Rates on Mortgage. The mortgage of house and landed property free from encumbrances are readily acceptable as good security and the rate of interest varies, according to circumstances, from 6 to 24 per cent. per annum. The rate for a loan on a usufructuary mortgage is seldom more than 9 per cent. per annum. Owing to the complicated nature of the Mohamedan law of succession to the property, the Muslim borrower has to satisfy the creditors that the property in question has no adverse claimants in accordance with the law and custom, before he can expect to borrow at the usual rate of interest.

Cattle Credit Rates. Mention must also be made of a form of important transaction in which no specific rate of interest is charged, but wherein the interest charged sometimes exceeds the principal. In this category falls the hire-purchase system in regard to cattle. In the United Provinces, when a cultivator purchases a bullock from a trader in cattle, he agrees to pay in several instalments a sum equal to two or three times the price. In Assam, a cultivator usually takes a bullock on hire, with the stipulation that he pays eight *maunds* of paddy as hire.[1]

Sahukari Rates. The *sahukars*, or bankers, among themselves charge 9 per cent. per annum only without receiving any security. Owing to the monetary stringency, the rate is sometimes 10 per cent. and in some places even 12 per cent.

[1] *Royal Commission on Agriculture, in India*, 1927, Minutes of Evidence, vol. v. p. 181.

This is known as the *Sahukari Byaj* or interest for bankers and money-lenders.

Co-operative Societies' Rates. In this connection, it will be of interest to note that the rates of interest charged by the Co-operative Credit Societies in India on loans to their members are from 6 to 16 per cent. per annum, varying according to conditions.[1]

Legal Rates. The rate of interest allowed by the Indian High Courts is 6 per cent. per annum, in the case of transactions in which no rate is mentioned. The same is the rate permitted by the Negotiable Instruments Act in the case of a negotiable instrument in which the rate of interest is not specified.

Deposit Rates. The interest on deposits varies according to the status of the parties. First-class firms, as a rule, will not allow more than $7\frac{3}{4}$ annas per R. 100 per month or $5\frac{13}{16}$ per cent. per annum, but second-class firms may pay up to ten annas per R. 100 per month or $7\frac{1}{2}$ per cent. per annum. The Co-operative Societies allow $6\frac{1}{4}$ to $12\frac{1}{2}$ per cent. interest on the deposits made with them.[2]

Compound Interest. The interest charged is usually compound, *i.e.* cumulative. According to the terms of the loan, on the due date of payment of the loans, or at fixed intervals, the principal and the interest to date are added up and fresh interest begins to run on the whole amount. Such occasions are also embraced by the money-lenders as opportunities for levying a higher rate of interest than originally agreed upon. Cases are not rare in which the debt amounts to three, four or five times the original loan, because of the compound interest charged.[3] In pre-British days the compound interest was restricted by custom to 50 per cent. for cash loans, and 100 per cent. for grain loans and the original

[1] See Appendix I (Table No. 2). [2] *Ibid.*

[3] 'Perhaps half of the total debt throughout the district is really the result of compound interest.' J. C. Jack, *op. cit.* p. 101.

debt could not exceed these limits. This custom was embodied in the ancient rule of *Damdopat* which laid down that interest should in no case exceed the principal. Under the British rule, we have it on the authority of Darling, 'custom was replaced by law, which looked only to the bond and interest was allowed to accumulate without limit.' [1] But this is not quite the existing legal position. Although the present law lays down no definite limit, under the Usurious Loans Act Indian courts are empowered to re-open unreasonable transactions and grant relief to the debtors.[2]

2. HUNDI RATES.

Before considering the rates of discounting *hundis*, certain technical terms employed in this connection call for explanation.

The indigenous name for the discount rate of *hundis* is quite simple. It is, as already stated, *hundiyana* or *hundiyavana*. It is with the English equivalent that we need some care. The Controller of Currency in his annual report uses the term '*Bazaar rate*' and not '*hundi* rate' to designate 'the rate at which the bills of small traders are discounted by Shroffs.'

It is to be noted in the same report that it is the Imperial Bank of India '*hundi rate*' and not the 'Bank rate,' which is defined as 'the rate at which the Imperial Bank will discount first-class three months' bills.'

This is because the Imperial 'Bank rate' is not, like the 'Bank rate' in England, the discount rate, but the rate at which the bank will ordinarily advance money against Government securities.

The Bazaar Rates. It is with the '*Bazaar* rates' that we are concerned in this chapter. They are of particular

[1] Darling, *op. cit.* p. 218. There is a saying in India that interest runs even faster than a horse.

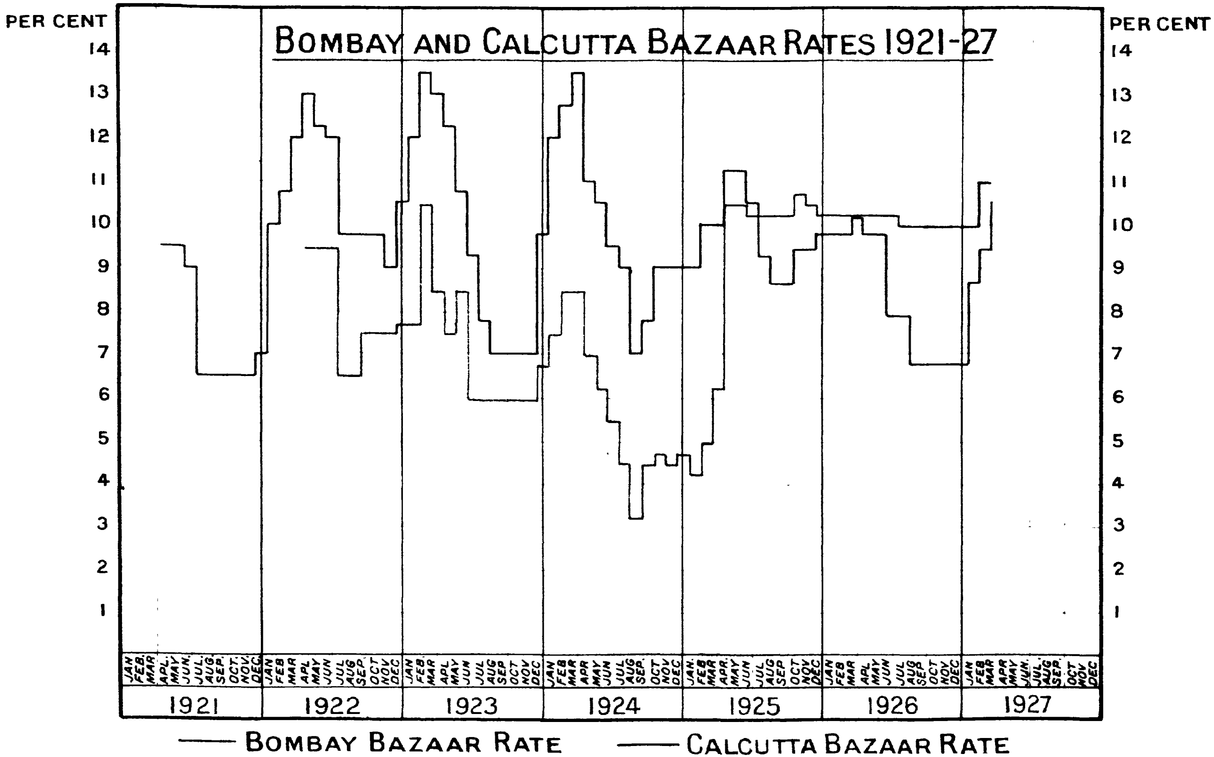
[2] See below, Chapter VII.

interest, because they afford the best means of measuring changes in the indigenous money-market and of bringing to light its special features. Luckily the *Bazaar* rates since 1921 for both Bombay and Calcutta are available in the annual reports of the Controller of Currency. The rates for other centres are not given, but they are still largely determined by the customs and conditions ruling in the local *bazaars*.

The Bombay and Calcutta rates are thus effective mainly in the Presidency towns. To facilitate their examination they are reproduced in the form of a diagram facing this page.

In this diagram several interesting facts are noticeable. The most striking feature common to both the Bombay and Calcutta rates is that they are subject to seasonal fluctuations. Broadly speaking, the rates show an upward tendency from December to May and a downward tendency from June to November. During 1923 and 1924 the fluctuations were violent both in frequency and in magnitude, the Bombay rates varying in both years from 7 to 13½ and the Calcutta rates from 6 to 10½ in 1923, and from 3¼ to 8½ per cent. per annum in 1924. The exceptionally high rates of discount charged by the bankers in these years were due to the heavy losses incurred by them in their business as a consequence of the trade depression of 1921-22. Since 1925 the fluctuations exhibit a clear tendency towards diminution both in magnitude and in frequency.

Another remarkable point is the large difference between the Bombay and Calcutta rates. During 1923 and 1924 this difference was generally in the neighbourhood of 4, and sometimes amounted to 5 per cent. A difference of 4 per cent. between the two *bazaar* rates suggests the absence of free interflow of capital even among the two indigenous money-markets of the Presidency towns. But the years 1923 and 1924 were exceptional years, and since 1925 the difference between the Bombay and Calcutta *bazaar* rates is markedly less.


BOMBAY AND CALCUTTA BAZAAR RATES 1921-27
PER CENT
14
13
12
11
10
9
8
7
6
5
4
3
2
1
JAN FEB. MAR APL. MAY JUN. JUL. AUG. SEP. OCT. NOV. DEC
1921
1922
1923
1924
1925
1926
1927
BOMBAY BAZAAR RATE
CALCUTTA BAZAAR RATE

3. SPECIAL FEATURES.

Seasonal Fluctuations. In rural areas the general level of the rates of interest does not show notable fluctuations, in spite of seasonal variations in the demand for loans. At first sight, this seems contrary to what should happen. It is well known that excess of money in one rural centre in India does not flow, as it should, to another where it may be in defect. When money-lenders in a village have a larger supply of money on hand than there is a demand for, and this excess remains there, then according to economic law the rate of interest should come down. But in an Indian village the usual rates are maintained intact, even when the season is slack. The reason lies in the ignorance and adherence to custom of the villagers. The borrower keeps paying the same old rate on new loans, because he knows little about the plentiful supply of money with the local money-lenders, in so far as it may be the case. When, on the other hand, loanable funds become scarce or the demand for money is great, and no money flows from other centres, more or less the same old level of rates still obtains, because the money-lender does not like to incur unpopularity by departing from a customary rate in a land where custom has such a remarkable hold on the imagination of the people. The rural money-lender has therefore an all-round high rate for all seasons, and the borrower knows what he is expected to pay without bothering about the changes in the condition of the local money market, in so far as such a market may be said to exist at all. Things, are, different, however, in urban areas, where considerable fluctuations occur in accordance with seasonal variations in the demand for money. Ignorance and custom lose much of their force in towns, but the immobility of capital is still there. The result is that in slack periods the rates show a greater downward tendency, whilst in busy seasons they go up considerably more than they would otherwise have done.

Rates in the Past and in the Present. Having considered the rates recently obtaining for loans, one is tempted to inquire as to the course they have taken in the present and preceding centuries. Such statistics, if available, should be of great historical interest and value, but once again the published government records give no such figures. The only existing source of information is the indigenous bankers themselves, but they are very suspicious in showing their old account books lest the information may be used against them. In the course of the present inquiry some statistics have been obtained regarding the various rates charged by indigenous bankers going back over sixty years. The information is given in full in a tabulated form in Appendix I (pp. 250-1). Every care has been taken in reproducing the actual figures from a mass of old account books of one of the oldest indigenous banking firms in the United Provinces, whose name must not be disclosed.

Too much importance must not be attached to such statistics emanating from a single firm, and thus no generalisation can be made for the whole of India. Taking the figures as they are, it will be noticed that in 1867, the rate of interest for loans against ornaments was 6 to 7½ per cent. per annum ; for loans against the mortgage of house property 12 per cent. ; for loans on the mortgage of landed property, 9 per cent. ; for loans on the pro-note, 6 to 12 per cent. ; for loans on executed deeds, 7½ to 18 per cent. ; for bankers among themselves, 4½ to 6 per cent. It is surprising that the fluctuations from 1867 to 1927 in the rates are so far from violent. Indeed, except for a few sharp rises and falls, the rates on the whole run fairly smoothly. A close examination will, however, reveal several interesting facts.

To begin with, the rates of this firm are lower than those enumerated in the preceding pages for recent years. It must, however, be remembered that the former are the rates of a

very reputable firm for loans made to good borrowers on fairly adequate security.

Furthermore, we find that the rates for loans against the security of ornaments, verbal loans and loans on bonds show a tendency towards rise throughout the period 1867-1927, while the rates for *hundis* and the bankers' rate among themselves are on a downward trend. This difference is not without interest and significance. A possible explanation seems to lie in the fact that the indigenous money-lenders have been practically unaffected by the introduction of early European banking in India, in so far as small loans are concerned, but the indigenous bankers take some loans from and discount some *hundis* with the joint-stock banks. Perhaps this is why in the case of loans made on the security of ornaments, etc., which have not been affected by the joint-stock banks, the rates of interest have tended to rise with the rise in the price level ; while, on the other hand, the *bazaar* rates and the bankers' rate which have been influenced by these banks, have tended, in consequence of competition, to be reduced. We might take the loans against ornaments as a type of the transactions which are exclusively carried on by the indigenous money-lenders, and the *hundi* transactions as those conducted by the indigenous bankers and coming within the influence of the joint-stock banks. The following diagram (p. 102) shows the course of the average rates of interest for loans against ornaments and the *bazaar* (*hundi*) rates during 1867-1927.

At first sight, it would seem that both the rates rise and fall and follow each other. Looking more closely, the *bazaar* rate starts with no changes in the first decade, falls in the second, and except for a temporary rise in 1890, maintained for about ten years, goes on falling, till it reaches the neighbourhood of 6 per cent., where it remains to this day. On the other hand, the interest rate for loans against ornaments—except for sudden falls in 1890, 1904 and 1910,

which do not last for more than a few years—exhibits throughout an upward tendency. The *bazaar* rate was $7\frac{1}{2}$ in 1867 and is 6—to be be correct, $5\frac{13}{16}$—in 1927; the indigenous interest rate was $6\frac{1}{4}$ in 1867 and is $9\frac{3}{4}$ in 1927. So that, if we leave aside temporary sharp rises or falls in particular years, which must be due to special circumstances, we can notice that the general trend of the rate of interest on loans against ornaments is towards a rise, whilst the general trend of

INDIGENOUS RATES OF INTEREST AND BAZAAR (HUNDI) RATES IN INDIA, 1867-1927.

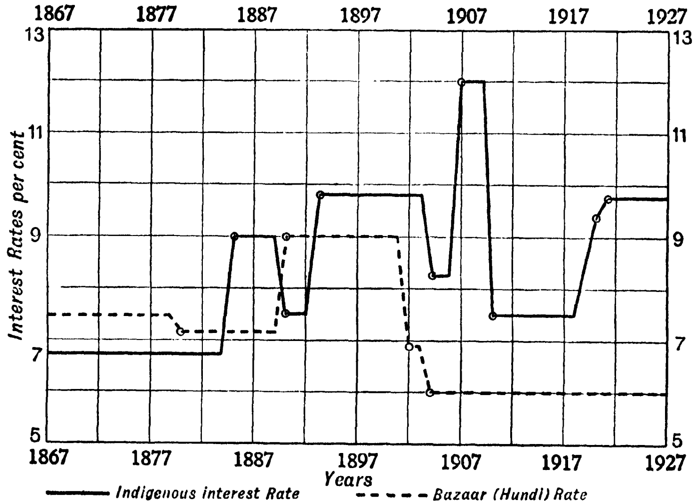


DIAGRAM II.

the *bazaar* rate is towards a decline. This can be seen clearly if trend curves are constructed and even if we take the *maximum* rates for every year, instead of taking the *average* rates which have been used in drawing the preceding diagram. The maximum rates are given in the following table (p. 103).

This table again brings out a point which has been commented upon already, *i.e.* the peculiarity of indigenous banking firms in maintaining rates over long periods at the same level. Thus when a rise or fall does come about, it

MAXIMUM INTEREST AND BAZAAR (HUNDI) RATES, 1867-1927

(per cent. per annum).

(Figures of a banking firm in the United Provinces, India.)

Year.	Rate of interest on loans against valuables.	Hundi Rate.	Year.	Rate of interest on loans against valuables.	Hundi Rate.
1867	$7\frac{1}{2}$	9	1898	12	9
1868	$7\frac{1}{2}$	9	1899	12	9
1869	$7\frac{1}{2}$	9	1900	12	9
1870	$7\frac{1}{2}$	9	1901	12	9
1871	$7\frac{1}{2}$	9	1902	12	$6\frac{3}{4}$
1872	$7\frac{1}{2}$	9	1903	12	$6\frac{3}{4}$
1873	$7\frac{1}{2}$	9	1904	$10\frac{1}{2}$	$5\frac{13}{16}$
1874	$7\frac{1}{2}$	9	1905	$10\frac{1}{2}$	$5\frac{13}{16}$
1875	$7\frac{1}{2}$	9	1906	$10\frac{1}{2}$	$5\frac{13}{16}$
1876	$7\frac{1}{2}$	9	1907	12	$5\frac{13}{16}$
1877	$7\frac{1}{2}$	9	1908	12	$5\frac{13}{16}$
1878	$7\frac{1}{2}$	9	1909	12	$5\frac{13}{16}$
1879	$7\frac{1}{2}$	9	1910	9	$5\frac{13}{16}$
1880	$7\frac{1}{2}$	$7\frac{1}{2}$	1911	9	$5\frac{13}{16}$
1881	$7\frac{1}{2}$	$7\frac{1}{2}$	1912	9	$5\frac{13}{16}$
1882	$7\frac{1}{2}$	$7\frac{1}{2}$	1913	9	$5\frac{13}{16}$
1883	$7\frac{1}{2}$	$7\frac{1}{2}$	1914	9	$5\frac{13}{16}$
1884	$7\frac{1}{2}$	$7\frac{1}{2}$	1915	9	$5\frac{13}{16}$
1885	9	$7\frac{1}{2}$	1916	9	$5\frac{13}{16}$
1886	9	$7\frac{1}{2}$	1917	9	$5\frac{13}{16}$
1887	9	$7\frac{1}{2}$	1918	9	$5\frac{13}{16}$
1888	9	$7\frac{1}{2}$	1919	9	$5\frac{13}{16}$
1889	9	$7\frac{1}{2}$	1920	12	$5\frac{13}{16}$
1890	9	9	1921	12	$5\frac{13}{16}$
1891	9	9	1922	12	$5\frac{13}{16}$
1892	9	9	1923	12	$5\frac{13}{16}$
1893	12	9	1924	12	$5\frac{13}{16}$
1894	12	9	1925	12	$5\frac{13}{16}$
1895	12	9	1926	12	$5\frac{13}{16}$
1896	12	9	1927	12	$5\frac{13}{16}$
1897	12	9			

comes to stay for some time, even after its cause may have exhausted its force. This, as pointed out, is due to the peculiar force of custom and tradition in Indian society. This statement should not be taken to contradict the opening remarks of this chapter about the variability of the indigenous rates of interest. The rates charged by the indigenous money-lenders or bankers vary with the standing of the borrowers, the amounts and periods of loans and the nature of the security offered; but for a particular customer the rate is more or less uniform and it is not subject to seasonal or serious fluctuations. Thus a banking firm will have a particular rate for loans against ornaments from customers of good credit, like the rate given in the preceding table, but it will vary its rate round the average, if the cover is inadequate or the customer not sound. Still the rates for secured loans are much more uniform than those for unsecured loans, which from their very nature necessitate a wide divergence of the rates, and these unsecured loans are as important in India as the secured ones, because, as we shall see later, they are quite numerous and are the cause of a large amount of indebtedness.

4. ADDITIONAL CHARGES.

Besides the interest simple and compound, an indigenous money-lender almost invariably receives some extra payments, according to the custom of the locality. Sir Frederick Nicholson mentions some of these as ranging from 'presents of fodder, vegetables, delicacies' to 'services in repair of tanks, etc., services in faction disputes and in the giving of evidence.' [1] Originally these small payments were intended to be devoted to *dharamkhata*, or charity, and an Indian borrower religious to the core regarded it as his duty to spend something for such a desirable purpose, but nowadays these extras are usually neither small nor spent in the way of charity, and yet the borrower goes on paying them, as a

[1] Nicholson, *op. cit.* p. 235.

mere custom, although he knows that they mostly add to the income of the lender.

Likhai. As has been mentioned already, while describing the *kist* (instalment) system in the United Provinces, out of a loan of every ten rupees a sum of four annas is deducted as *likhai* or writing charges, to be divided equally among the *munim*, or agent, and the *sepoys* (messengers), who are usually two in number. In Cawnpore, a borrower for the same sum pays eight annas for the *munshi* (writer) and *sepoys* (messengers) as well as for charity in the name of *Gangaji*, or the holy river Ganges, and another eight annas to the *dalal*, or broker, who arranges the loan.

Nazrana. The borrowers in the villages are used to having something between 1 to 10 per cent.—varying from case to case—deducted from the amount of the loan, on account of *nazarana*, or *salami*, *i.e.* present to their overlord, the money-lender. Besides, some of them pay one rupee on a loan of ten rupees or twenty rupees for the ceremony called *thaili ka munh khulai* or 'opening the string of the purse' (by the money-lender). This custom is in vogue in the villages and some towns of the United Provinces. In the Tehri State (Garhwal), every borrower has to pay *gunth khulai* or *ganth khulai*, which means the same thing as *thaili ka munh khulai*, at the fixed rate of one anna per rupee. So that if a cultivator takes a loan of R. 10, he gets ten annas less or only R. 9/6/- for R. 10 at the time of borrowing.

Dasturi. The payment of *dasturi*, or brokerage, is a common practice in commercial towns, where the brokers are very prosperous. In some places, however, this payment is quickly vanishing. Inquiries in the Central Provinces have shown that while in years past the debtors had to pay, as an immediate precedent to the loan, sometimes 20 per cent. as *dasturi*, at the present time in many cases he gives nothing on this account. Still, in some cases he has to pay R. -/4/- brokerage in addition to 1 per cent. for the

gumashta or the agent, and 1 per cent. for *dharmkhata* or charity. The money-lenders of certain localities, such as Chattisgarh, in the Central Provinces, impose on their debtors a commission to be paid in kind, along with the amount of the debt and interest. The number and amount of these *dasturis*, as indeed of all these extras, differ in individual cases and depend upon time-honoured custom.

Abwabs. Then there is a pernicious practice which obtains in the Bengal Presidency. There the managers of the landlords exact what goes by the name of an *abwab*, but is merely an illegal tribute taken from a borrower. Usually as much as 25 per cent. per annum is taken on this account, sometimes the amount goes up to 50 per cent.

Girvin and Bandor. In the case of *girvin*, or pawning, it has already been pointed out [1] how additional profits accrue to the money-lenders out of the wide cover of valuables, in cases where they are not redeemed. Similarly it must be remembered that loans are often advanced to the cultivators and artisans on an unwritten but customary understanding that the borrower is to sell the fruits of his labour, *e.g.* corn, *ghee* or clarified butter, at especially reduced rates. According to what is called the *bandor* system in the Central Provinces, though it is prevalent throughout the country, the money-lender stores these commodities and sells them at an opportune time, *i.e.* either at the time of the Dipawali festival in October or November, or just before the setting in of rains.

Odds and Ends. Petty borrowers belonging to the so-called lower castes in villages and towns perform odd services for the *sahukars*, or bankers, in addition to the payment of interest and the above mentioned extras. Some may supply fodder, others wood or fuel, yet others labour, without receiving any direct payment for these. But on important festivals, some money-lenders and bankers may be seen giving their customers *inam*, or small presents.

[1] See above, pp. 66-67.

5. METHODS OF COLLECTING CHARGES.

Loans in Kind. In the case of agricultural loans contracted in kind, the usual procedure for collecting the interest and principal is that the moment the harvest is ready, the agent of the money-lender is present on the fields 'to take away his share of the produce as soon as the crop is cut.'[1]

In some cases, when the borrowers are unable to pay back these loans, they have to give away their cattle, which are accepted at an agreed price by the money-lenders. These cattle are again either loaned out or sold directly—without the help of a middleman—to persons who are not borrowers, but may need the cattle. Often cattle dealers wander in the villages to purchase cattle not only for purposes of slaughter, but also for sale.

Cattle Credit. As regards the cattle credit, the lender's agent presents himself on the due date to get his dues while the poor peasant is usually unable to pay. The agent stays on at the expense of the debtor, who must lodge and feed him till the debt is paid back. In the meantime, a second agent follows, and then the third, till the poor man is forced to seek the aid of the local money-lender and contracts fresh loans on excessive rates to pay off the old burden. This practice is particularly to be seen in the Ceded Districts and is practised by the cloth traders in the Madras Presidency, who lend to weavers and others.

Instalment System. The method of collecting advances made on the instalment system is both simple and interesting. Big *kistiyas* or *sahukars* (money-lenders) have so many *ilaqas* or circles of their business. The *ilaqas* are often very extensive, *e.g.* the *ilaqas* of Moradabad in the United Provinces extend up to the districts of Benares, Sitapur, Allahabad, Muttra, to mention only a few. The business is invariably done in the villages, not in the cities. Each

[1] Jack, *op. cit.* pp. 101-102.

ilaqa, or circle, has got one *munim*, or agent, and two *sepoys* (messengers), and consists of so many villages. The money is advanced and next month the *munim* goes to each village in his *ilaqa* and takes with him some more capital which, together with the instalment money realised in the visit, he re-invests in the same manner and so the process goes on.

One unfortunate feature, however, to be noticed is that dishonesty sometimes creeps into this business ; perhaps it cannot be helped. The business is all in the hands of the *munim*, who are ordinarily low-paid men and occasionally yield to the temptation to add to their scanty emoluments by unfair means. Some of the instalments paid are not entered in the *bahi*, or the account book, the money being quietly pocketed by the *munim*.[1] As the poor debtor often lives hundreds of miles away, he cannot turn up to defend himself in case a law suit is filed against him, for the cost of the journey alone, leaving aside the demands of a *vakil* which are hardly modest, would in many cases be double the amount of the suit. Secondly, no receipt is given for money repaid and an oral plea of payment stands no chance of being accepted.

Fraudulent and Irregular Practices. From the preceding observations it must not be supposed that dishonesty, or fraud, and irregularity are the accompanying features of indigenous banking, or money-lending. A dispassionate inquiry will show that almost every banker, and many big money-lenders are in their dealings above reproach. But it is equally true that some money-lenders there certainly are, particularly those with whom the small ignorant borrowers have to deal, who are given to various malpractices. For some malpractices the borrower is also to blame. The clients of an Indian money-lender are drawn from all classes of society and from all kinds of characters. Some borrowers

[1] Cf. 'If instalments are taken, receipts for these are rarely given, and the cultivators tell many stories of how the payment has been later on denied ' (H. H. Mann, *op. cit.* study No. ii. p. 119).

are in the habit of contracting loans without any ostensible means for their repayment or without, in some cases, any intention to repay them. In order to safeguard himself from such borrowers a money-lender sometimes takes a penalty bond in addition to the usual promissory note. The idea is to have an additional instrument to be used against the borrower; in case he fails, or gets it into his head to seek refuge in an insolvency court. In the bond the customer signs a statement that a certain sum has been borrowed at a certain interest ; a space is left to enable a date to be inserted. A still more serious weapon is to take a blank note signed by the customer in place of the penalty bond. The object is the same. In case the customer should harbour in his mind an idea to cheat the money-lender and go to an insolvency court, the latter has still his hold on the fellow, so long as he possesses the blank note, which he can fill in, and on which he may sue the debtor, when desirable. Such notes, however, are open to abuse and are abused.

Whatever justification there may be for the above-mentioned practices, there are some acts which merit unqualified condemnation. I am told that the sums of money lent out are sometimes entered in figures like R. 10, or R. 20, and not in words. These figures are later on easily altered to R. 100, or R. 200 respectively by the mere addition of a zero ' 0 ' [1] to the clear benefit of the lender and the hurt of the borrower. Another trick of such dishonest people is neither to page nor to stitch their *bahis*, or account books. The rest is quite easy. Old pages are taken out and new ones inserted according to the convenience and comfort of the creditor. I hear that in some cases three sets of separate *bahis* are kept by a money-lender, one for his own use, another for the perusal of the borrowers, and yet another for

[1] ' In almost every case in which an inquiry has been made the sum which the cultivator actually received from the money-lender is far smaller than the sum mentioned in the bond ' (J. C. Jack, *op. cit.* p. 101).

the income-tax officers' inspection. Each is put in a separate place and is taken out, as and when occasion demands. It is needless to add that the same account assumes three different shapes in these account books.

Such are some of the malpractices as regards the keeping of irregular accounts. But sometimes no accounts are kept at all. For instance, much borrowing by small people in both villages and towns is made by the pledge of ornaments or such other security. Sometimes no accounts of these transactions are kept by the money-lenders and complaints are heard that the articles are not returned, even after the debts are paid off.

6. EVIDENCE OF USURY.

Now it has been noticed that usually the rates of interest vary from a half-anna to two annas per rupee per month or from 37½ to 150 per cent. per annum. The rates charged by the *Pathan* money-lenders come to over 300 per cent. per annum. In addition to the interest the borrowers have also to pay additional charges on various pretences already described, in accordance with the custom of the locality. As has been shown, these extras are neither small, nor rare, ranging from 1 to 10 per cent. of the amount of the loan or even more, although they are often ignored by writers on the subject. Furthermore, cases without doubt occur in which false entries are made or irregular accounts kept. In the light of these facts, it may safely be said that usurious rates of interest are prevalent generally throughout the country.

Effects. What usurious rates of interest mean to the cultivator in India may best be described in the words of the well-known benefactor of the cultivating class, H. W. Wolff. 'It is Usury—the rankest, most extortionate, most merciless Usury—which eats the marrow out of the bones of the *raiyat* and condemns him to a life of penury and slavery in which not only is economic production hopeless, but in which

also energy and will become paralysed and man sinks down beaten into a state of resigned fatalism, from which hope is shut out and in which life drags on wearily and unprofitably as if with no object in view.' [1]

Comparison with the West. The evil of usury, it is interesting to notice, is not peculiar to India alone, but is a phase in the development of banking through which some of the western countries passed two or three centuries ago. For instance, the present position of the Indian peasant may be compared with that of the yeoman in Tudor England. Of the latter the following is a typical picture.

'He borrows money to try to stock his farm. He gets an advance from his land lord, and must work off the debt in personal labour on the demesne. He appeals for help to a neighbour, is charged twenty per cent., for a loan of twenty shillings, forty per cent. for five pounds, and twenty-eight per cent. for seven pounds, or is granted a loan of twenty pounds only on condition that he takes half of it in the shape of a superannuated mare "not worth eight pounds." Since he has hardly any capital of his own, he cannot afford to wait for his money till his produce is sold. He therefore pledges his crops while they are still standing for immediate accommodation, or sells them outright at ruinous prices. The corn-dealer, who is the obvious, often the only, person to offer an advance, acts in the manner ascribed to the modern elevator company. He buys corn cheap, because the sale is forced, and sells dear, because he can wait and pick his market. The result is that the cream of the profits is skimmed by the middle man.' [2]

Substitute rupees for the pounds and an old or weak bullock for 'a superannuated mare' and there is the picture of an Indian cultivator. Let us take the second example from France.

'In *France* the great mass of the agricultural debt is held by private lenders, and probably the whole of the personal credit

[1] *Co-operation in India*, by H. W. Wolff, 1927, p. 3.

[2] *A Discourse upon Usury*, by T. Wilson, with an historical introduction by R. H. Tawney, 1925, pp. 25-26.

rural debt. Now the money lenders are said to be frequently mere usurers ; very often they avail themselves of the misfortune of the borrower ; they trade upon his misery and ignorance ; from the moral point of view their actions are criminal, they are frequently the ruin of the agriculturist. The details of the transaction are well known ; beginning with a simple note or bond, all the tricks of the trade are habitually and purposely resorted to, until the patrimony of the peasant is in the usurer's hands ; in good seasons, when the debt might be paid off, the debtor is not pressed for payment but rather avoided ; in bad seasons or on inconvenient occasions, the money-lender suddenly requires his money, till the wretched peasant signs away his whole property. . . . As for usury in cattle, it is equally common and wasteful to the ryot . . . it is common for a man to pay 700 francs for a pair of cattle which would cost only 500 for cash. " Too often," says one authority, " the peasant works not for himself but solely for the profit of the usurer who has made him an advance ; his cattle are bred and fattened not for himself but for his creditor, so that the French peasant's motto might be Virgil's *sic vos non vobis, fertis aratra boves.*" ' [1]

How closely does the above account apply to some of the Indian money-lenders who in their pursuit of money-making are practically heartless. The conditions which prevailed in Germany and in Italy until the latter half of the nineteenth century are perhaps overdrawn in comparison with what now obtains in India, but they serve to depict some extreme cases to which the system of money-lending may lead.

' In *Germany* the picture is even more detailed and pitiful. For want of credit institutions over the greater part of the country, usury is almost universal and " from its pitiless exploitation of the smaller agriculturists it is considered as a menacing social danger." The peasant is " unable to take count of his pecuniary situation " ; he keeps no books and cannot judge of the pecuniary result of a transaction, whether of a venture in cultivation or of a loan from a money-lender ; the result is that the rural classes fall into the clutches of men who, under colour of helping them,

[1] Nicholson, *op. cit.* p. 42.

desire nothing save their "ruin for the profit of the lender himself"; these are represented as lying in wait for misfortune, and are as eager as vultures, when there is a chance of prey. The story of their action, whether in loans of money, cattle or goods, is everywhere the same or similar to that of France; temptations, false accounts, the law courts, miserable cattle and bad goods at maximum prices; all these are general. . . . The "cultivators" seldom had cattle of their own, but borrowed them from dealers whose terms they were forced to accept on penalty of losing the cattle, and the dealer was thus able to extort "the whole value of the worth of the cattle, while the misery of the peasant increased yet more and more." Elsewhere the money-lender was so powerful that the produce was often handed over bodily to him on his own terms; he then—again on his own terms—supplied food and seed, often of bad quality.'

'In *Italy* usury is still more rife, and the accounts given by Italian, English and French economists and observers, by the great report of the "Agricultural Commission" and by numerous writers, are very harrowing. The pages of De Laveleye and Beauclerk are open to the English reader; in French and Italian writers most extraordinary usury is mentioned in detail: 5 per cent. per month for usury is common; in one village where M. Wollemborg established a credit institution interest varied from 20 to 200 per cent.; in another the little bank started by the same philanthropist successfully lent money at 6 per cent. to pay off debts with the usurers on which 30 to 100 per cent. was being paid, the successful action of the bank showing that the peasants were paying usury and not interest. Signor Levi mentions rural usury up to 730 per cent., *i.e.* two per cent. per diem. Maize for food to the cash value of 12 francs was in one village supplied to the wretched peasant by the usurer on consideration of his paying 24 francs in three months or at the rate of 800 per cent. and the maize was often of bad quality such as causes the Italian scourge known as the "*pellagra*"; in this village the mayor alleged that the peasants "often had to pay the fabulous interest of 1200 per cent." Small wonder that, as it is said, a man who has 2000 lire (£80) of ready money (and a hard heart) can live on its proceeds. In fact, in Italy, generally, the peasant population and small

farmers are the prey "of the most frightful and shameless usury," to the cash terms of which gratuitous labour (corvée) and a dinner on Sundays, presents of fruits and vegetables, and other services, are not infrequent, though unexpressed additions.' [1]

[1] Nicholson, *op. cit.* pp. 42-43.

CHAPTER V

ECONOMIC POSITION OF BORROWERS

1. INDIGENOUS BANKERS AND THEIR CLIENTS.

INQUIRIES and observations have abundantly shown that in India, unlike the western countries, to distinguish between the bankers and the customers is to distinguish between the rich and the poor. All over the country the indigenous bankers and money-lenders are, generally speaking, the people who are well off, while their customers are mostly those who are living in debt, squalor and misery. This peculiar position explains the severe condemnation to which the indigenous banker and money-lender have been subjected by almost every writer on the subject. In order to arrive at the truth behind this possibly incorrect but certainly universal condemnation of the Indian banking community, we must examine, firstly, the causes which are responsible for the prevalent usury and, secondly, how far, if at all, the bankers themselves have contributed to those causes.

Why the Clients suffer from Usury? Now in every country—and India is no exception—the rates of interest may be said to depend, broadly speaking, upon the extent of the demand for loans and the uses to which the loans are put, the quality of the security, and the supply of the funds available for lending.

Causes of Borrowing. Taking the question of the extent of the demand for loans first; no statistics are available, but one or two facts which have a bearing on the subject may be noticed. Firstly, in India about 92 per cent. of the

population is illiterate,[1] and secondly 73 per cent. is dependent on agriculture,[2] which is in a very backward stage. The productivity of the Indian cultivators is remarkably low. They have, in ordinary years, very little surplus after paying expenses. Moreover, their earnings come to them in the form of lump-sum payments received twice a year, at the time of harvest. To apportion the amount so received over the intervening period till the next harvest, so as to meet the daily household expenses, is a task that demands some education and forethought and is beyond the powers of the Indian peasant. The natural consequence is that he borrows to make both ends meet.

Coming to the more specific occasions of borrowing, there is first the uncertainty of agricultural production to be reckoned with. Something has been done in India to counteract the vagaries of nature, but very much still depends upon the weather conditions. Failures of crops are not infrequent, due to lack of rain or excessive rainfall, hailstorms, frost, flood, besides other scourges, like insect pests and wild animal attacks. These uncertainties lead to wide fluctuations in the prices at which agricultural crops are sold, which often give scope for wild speculation. The net result is naturally recourse to the money-lenders. Whenever the prices of jute in Bengal, cotton in the Central Provinces and Berar and Bombay, rice in Assam, wheat in the Punjab, vary widely, they hit the cultivator, because he is usually optimistic in his estimates. He reckons by the maximum in place of the minimum expectation, and when there is sudden fall in the value of his produce he is not prepared for it.

Agricultural Rent and Land Revenue. Besides, the cultivator has very often to reckon with inconvenient increases

[1] At age five and above, of males 13·9 per cent., of females 2·1 per cent., and of both 8·2 per cent. are literate (*Census of India*, 1921, vol. i. part i. p. 177).

[2] *Ibid.* p. 241.

in rent, as well as the rigidity of the demand for taxes. The Government land revenue in some parts is only from two to six per cent. of the gross produce, and this is therefore not a serious cause of borrowing. But the collection of rent is by some landlords and their petty agents made an occasion for extracting extra sums from the cultivators. It is these illegal exactions which weigh heavily on the poor peasantry.

Unemployment and Under-employment. The foregoing causes of borrowing apply especially to the agriculturists. Among the causes which affect the agriculturists and the non-agriculturists alike may be mentioned the problems of unemployment and under-employment. Very often the cultivators, who are busy in the crop seasons, may be seen idle during the off periods. For the non-cultivators, the problem of unemployment is a serious one. As a rule, there is great competition for posts in the Government departments, which are limited. Other avenues are either already crowded or, which is more often the case, not tried.

Litigation. Furthermore, a curse from which the ignorant people suffer is the frequency of litigation. The village arbitration courts are no longer effective. Generally even petty disputes are brought to the law courts.

Social Institutions. The Hindu law of inheritance, according to which property has to be divided equally among the heirs, has led to continuous sub-division of agricultural holdings, with consequent diminishing productivity. Some of the holdings have become so small as to yield hardly sufficient to enable the cultivator to maintain his family.

The joint Hindu family system is also responsible for the contraction of debt. This, at first sight, seems strange, for under this system the members of a family all live together, which should make for thrift and economy. The system does mean economy in a way, but there is also a drawback. The indolent members live at the expense of the industrious ones, the spendthrift at the cost of the thrifty. Because

there is small fear of separation, some members get into bad ways and run into debt. The debts incurred by a father are passed on to his sons. It is considered a religious duty to clear off the parent's debt, so that his soul may rest in peace. Some money-lenders are quite ready to give loans to boys who are coming of age, if they know that there is some family estate or an earning member in the family.

Social Customs. Unlike other countries, many loans in India are sought for the purpose of satisfying the social customs.[1] Indian marriages, on account of the feasts, ornaments, clothes, dowry and presents which they involve, are proverbially so expensive that, more often than not, loans have to be contracted on that account. Moreover, the evil of early marriage, so common in India, not only hastens the heavy expenses of marriage, but has the cumulative effect of producing more children, to be soon ready for marriage. But that is not all. The occasions of borrowing are innumerable, the birth of the first child—especially if it is a son—pregnancy ceremonies, the thread ceremony, the betrothal ceremony, ornaments for wife, periodical gifts to relatives, funeral ceremonies, the *sradh* ceremony (anniversary of the death of an ancestor), and so forth. If one happens to break a custom or commit a fault, the case is tried by the caste tribunal and the usual punishment is that so many priests of the holy order, or sometimes all the members of the caste, must be propitiated by a general feast.

Superstitions. Another cause of loans arises from the superstitions which are current. For instance, it is a common belief that the spirits of the dead haunt the living members of the family in certain cases. If a man's wife dies and he marries a second time, the new wife, if she is taken ill, is thought to be troubled by the spirit of her deceased predecessor. To appease the spirit presents are given and

[1] 'The consensus of opinion on the point whether the cost of ceremonies is a leading cause of indebtedness in India is in the affirmative' (*Census of India*, 1921, vol. viii. part i. Appendix S. p. lxii).

conjurers are called in to exorcise it. If a child falls ill, the cure is often believed to lie in certain ceremonies for warding off the evil spirits. As these ceremonies are not inexpensive, recourse must often be had to loans.

Luxuries. Some loans are taken for luxuries. Next to the peasant, the landlords and the descendants or scions of rich families are the largest borrowers—the greatest, perhaps, in point of indebtedness per head. They are generally uneducated and cannot manage their estates properly. Very often they are given to luxurious ways of living. They borrow money for racing, gambling, the purchase of motor-cars, the building of palaces, visits to Europe and other foreign countries, and so forth.

Productive Purposes. All the uses which we have so far enumerated fall under the heading of unproductive loans. There remains the relatively small class of loans which may be termed productive. For instance, a cultivator borrows in order to purchase seed, manures or new implements, to replenish his stock of cattle or to make land improvements.

Some people borrow in order to give their sons a better education than their means will permit. A few enthusiastic parents even send their sons to foreign countries for education on borrowed funds, in the hope that, on their return home, they will get well-paid jobs and clear off the debt.

Security for Loans. As regards the quality of the security offered, an Indian borrower is, as a rule, exceedingly poor; he has nothing but himself, his wife and his children, his wife's few brass or silver ornaments, a few utensils, and his cattle. In the first instance, he tries to get a loan on personal security. Sometimes he will pledge or sell his future produce in advance. If nothing else is of avail and a loan is urgently required for the third or fourth time, he pledges his wife's ornaments as a last resource. In the case of landholders, land or buildings are mortgaged in the ways already described.

Supply of Loanable Funds. As regards the supply of funds available for lending, it has been pointed out that deposit banking in India is conspicuous by its almost entire absence. Usually a money-lender has only his own capital to lend. It is only in busy seasons and to a limited extent that he may get advances from bigger *mahajans*, or bankers, who in their turn are financed by the joint-stock banks or the Imperial Bank of India. At the same time, the money-lender has no competitor in the small loans market. In some places *taccavi* loans [1] are given and co-operative credit societies are another source of credit, but they are not yet serious agencies in breaking the monopoly. Generally speaking, he is able to exact his own terms.

The Bankers' Responsibility. Now, so far as the loans are required for wholly unproductive purposes and the customers have no adequate security to offer, as is most frequently the case, no responsible banker would find it good business to lend money at any reasonable rate. The indigenous banker or money-lender has to consider the extraordinary risk he takes and has to safeguard himself by charging a high rate. He knows that it is an even chance whether he loses his money or gets it back. His task is a thankless one. The Portuguese have a saying that, if you would make an enemy, lend a man money and ask it of him again. There is no indigenous banker in India but has had an opportunity of realising the truth of the maxim.

Furthermore, for the high rates of interest, even in cases of adequate security, the system rather than the banker or money-lender is to blame. The lower the interest rates a modern banking house can charge in loans, consistently with safety, the better it is for it in the long run, for the greater is the business which it can attract and the profit it can make. With an indigenous banker or money-lender, however, the

[1] The *taccavi* loans are the loans granted by the Government for agricultural purposes. For their explanation and criticism, see below, p. 189.

case is different. The higher the interest he can charge the more profitable he finds it, for his clientèle is limited and of a dubious character.

Nevertheless, it is a matter of common knowledge that some of the money-lenders, intoxicated with the lust of money stoop to all sorts of malpractices. One cannot but condemn the manner in which they abuse their position and only too often exploit to the utmost the helplessness of the unlucky debtor.

The Clients' attitude towards the Bankers and Money-lenders. There are black sheep in every profession, but it would be unfair to judge the profession as a whole from a few cases. The best way to form an impartial opinion about the indigenous bankers and money-lenders is perhaps to study the attitude of their customers towards them. What does an average borrower really and truly feel towards the creditor? For the correct answer to such a question, one must go to the very heart of the village and see things as the villagers see them. One must guard oneself against all bias or prejudice and start with the sole object of finding out how a village borrower views the matter. Thus we are not concerned here with questions as to whether a loan is taken for a good purpose or a bad one, from the economic point of view, or whether, when a loan is taken, it is usefully spent. We must take the economic and social fabric as it exists and not as we should like it to be. If we do so, it will be observed, as well as easily explained that, broadly speaking, the money-lenders and bankers and their customers get on quite well together. Both depend on each other; neither can do without the other. Whenever a borrower needs money, he has only to approach the money-lender to get it, even though he may have no security to offer. That this facile credit may be harmful is beside the question. The point is that a borrower can rely upon his *mahajan;* he is seldom disappointed. In the villages they live together and the customers are often

invited to the ceremonies celebrated by their money-lords. On festive occasions they are usually the recipients of small presents. Their relations, on the whole, are not unhappy.

And yet many abusive stories and sayings are current about the money-lending class. This is partly due to undesirable practices on the part of some members and partly to the fact that the business of money-lending, from its very nature, gives rise to antipathy in the minds of such borrowers as cannot or do not redeem their liabilities.

Of these sayings a few may be given by way of a sample. Among the villagers in the United Provinces there is a proverb, 'He who has a *bania* (money-lender) for a friend needs no enemy,' and another 'The *thug* (thief) robs the stranger, the *bania* (money-lender) his friends.' Again, 'the money-lender is dead and a son is born to him. Rejoicing at the former event is offset by grief at the latter.' The money-lender is regarded with dread. The Punjab villagers have a saying, 'Vex not a *jat* in his Jungle or the *kirar*, a money-lender, at his shop, or the boat-man at his ferry, for if you do, they will break your head.' [1]

Even the *Nattukottai Chettis* are not immune from such descriptions. They are sometimes called the *Jews* of southern India. A strange belief is held among the *Telegus*. They think that the eclipses are caused by the moon coming in between the money-lenders and their customers. When the debtors feel they can no longer bear their burden and get ready to assault the money-lenders, the heavenly bodies intervene to protect them.

2. NATURE OF INDEBTEDNESS.

The foregoing discussion brings out one important fact, that if the bankers and money-lenders are not altogether

[1] *Punjab Castes* (a reprint of the chapter on 'The Races, Castes and Tribes of the People' in the *Report on the Census of the Punjab*, published in 1883, by the late Sir Denzil Ibbetson), 1916, p. 251.

free from blame for the usurious rates of interest, the clients are also to a large extent responsible for the evil from which they suffer. In view of the popular misconceptions about the indigenous bankers and money-lenders and the misunderstanding of the exact situation, it needs to be emphasised that the crux of the whole problem is the fact that the bulk of private debt in India is unproductive.

According to Sir Frederick Nicholson's inquiries of 1894, only 1·3 per cent. of the registered mortgages in Madras were found to be for the improvement of land.[1] The findings of Darling in 1918-19 show that the percentage of such productive loans for the Punjab is less than 5.[2] According to the official inquiries conducted in the Bombay Presidency

'No less than 40 per cent. of the families under examination were found to be indebted to money-lenders, the borrowing being normally undertaken for marriages, funerals and festivals. In 4 per cent. of the Bombay families the expenditure on marriages alone actually represented more than the total family income of the year. In 23 per cent. it amounted to one-half of the total annual income, and in 73 per cent. to something under one half.' [3]

Speaking about the Central Provinces and Berar, Mr. F. J. Plyman, Director of Agriculture, makes the following observations regarding a typical village.

'Mr. McDougall, in his economic study of a Chattisgarhi village, shows that six-sevenths of the total debt of the village was for unproductive purposes and that, were it not for the principal and interest which the villagers had to meet, on account of such loans, the return from the average whole-time cultivator's land would have left him with a distinct margin of saving over the demands of his annual family budget.' [4]

[1] Nicholson, *op. cit.* p. 18.

[2] Darling, *op. cit.* p. 18.

[3] *India in* 1923-24, p. 196.

[4] *Royal Commission on Agriculture in India*, Minutes of Evidence, 1927, vol. vi. p. 6.

3. EXTENT AND GROWTH OF INDEBTEDNESS.

(*A*) *Agricultural Indebtedness.*

It is clear that the private indebtedness of India is mostly unproductive. What is the extent of this indebtedness? This is one of those mysteries which remain unsolved to the present day. Every writer on the subject is agreed on the question that the indebtedness is appalling and oppressive and that something must be done in the matter, but no one knows exactly the magnitude of the problem he is anxious to tackle. As late as 1st September, 1925, Mr. Jamna Das M. Mehta asked in the Legislative Assembly of India; (*a*) Will Government be pleased to state whether they have any authoritative report by a responsible official of theirs on the question of agricultural indebtedness in the country or in any particular province or in any particular district? (*b*) If so, will they be pleased to place it on the table? Mr. J. R. Bhore replied: (*a*) The answer is in the negative. The question does not therefore arise in (*b*).[1] Leaving aside for a moment the problem of total indebtedness, even in regard to *agricultural* indebtedness, there are thus no precise data for any area in a country which is predominantly agricultural. The importance of the subject has, however, been realised and it is expected that the Royal Commission on Agriculture which is now sitting in India will inquire into the question of agricultural indebtedness. But the problem of non-agricultural indebtedness would be outside the scope of its inquiries and will still continue to be a subject of surmise.

There have been occasional inquiries bearing directly on the subject of indebtedness—mainly agricultural—but they are mostly out of date and do not carry us very far. In order to appreciate the efforts already made, they may be

[1] *Legislative Assembly Debates, India* (Official Report), vol. vi. 1st September, 1925, p. 492.

divided into two kinds of investigations—firstly, those conducted by private individuals, who are mostly Government officials, and secondly, those made through Government agency. Of the former, the most notable examples are the inquiries of Major J. C. Jack in Faridpur district (Bengal) in 1906-10;[1] of Dr. Harold Mann in two Deccan villages in 1917-19;[2] of Rev. E. D. Lucas in two Punjab villages in 1919;[3] of R. L. Bhalla in a southern village in 1920;[4] and of M. L. Darling, covering the whole province of the Punjab, in 1918-19.[5]

The official inquiries may be enumerated chronologically as follows:

1. 1875—Inquiries in 12 villages in Ahmadnagar[6] (*Bombay*).
2. 1876—The indebtedness of 61 villages in Hoshiarpur District[7] (*Punjab*).
3. 1878—223 Family Budgets collected in various parts of the Punjab in connection with the famine of that year[8] (*Punjab*).
4. 1894—Inquiries in Nagpur (18,000 tenants)[9] (*C.P.*).
5. 1894-5—Sir F. Nicholson's inquiry into indebtedness in the Madras Presidency[10] (*Madras*).
6. 1896—Mr. S. S. Thorburn's inquiry into the conditions of twelve villages in the district of Shahpur, Gujranwala and Sialkot[11] (*Punjab*).

[1] *The Economic Life of a Bengal District*, 1916.

[2] *Land and Labour in a Deccan Village*, No. 1, 1917, No. 2, 1921 (the two villages surveyed are Pimpla Soudagar and Jategaon Budruk in the Deccan).

[3] *The Economic Life of a Punjab Village*, 1920 (two villages in Hoshiarpur).

[4] *An Economic Survey of Bairampur*, 1923.

[5] *The Punjab Peasant in Prosperity and Debt*, 1925.

[6] *Report of the Deccan Riots Commission*, 1875.

[7] *Gazetteer of the Hoshiarpur District*, 1883-84, p. 73.

[8] *The Punjab Famine Report*, 1878-79.

[9] Central Provinces Government Letter No. 4423, dated October 10th, 1894.

[10] *Report regarding the Possibility of Introducing Land and Agricultural Banks into the Madras Presidency*, 1895, vol. i. pp. 237-242.

[11] *Report on Peasant Indebtedness and Land Alienations to Money-lenders in parts of the Rawalpindi Division*, 1896.

7. 1911—Sir Edward Maclagan's estimate of the Rural Indebtedness of India based on Nicholson's inquiries in the Madras Presidency [1] (*India*).
8. 1913—Baroda State (An Inquiry made by the Baroda State Government) [2] (*Baroda*).
9. 1918—Ajmer Marwar [3] (*Rajputana*).
10. 1919—Mysore State [4] (*Mysore*).
11. 1919—Bengal [5] (*Bengal*).
12. 1925-26—Mysore, inquiries into economic conditions made under the auspices of the State Government [6] (*Mysore*).

Reviewing these, it would appear that no separate studies are available for the United Provinces, Behar and Orissa, Burma and most parts of Central India, while only four inquiries relate to the Indian Native States. The inquiries in Bombay, Bengal and the Central Provinces are confined to very small areas and mostly have only an indirect bearing on the subject of indebtedness, it not being the immediate or main object of the inquirer.

The work of Major Jack, for example, is admirable, but it deals with only one district in Bengal. As we shall see presently, his results, though valid for Faridpur in 1906-10, cannot form a basis for any generalisation with regard to the whole of India. For the Madras Presidency, Sir F. Nicholson's inquiry is laborious and valuable, for it is an *ad hoc* study and covers the whole Presidency, but it was made thirty years ago. In the case of the Punjab, however, we are more fortunate. Not only has it been the subject of the largest number of investigations, but the latest work of M. L. Darling is both recent and comprehensive, covering as it

[1] Note on Agricultural Indebtedness in India, 1911.

[2] *Report on Agricultural Indebtedness in the Baroda State*, 1913.

[3] *Annual Report on Co-operative Societies*, 1918-19 (Ajmer-marwara).

[4] *Ibid.* 1919-20 (Mysore).

[5] Figures collected by Registrar Co-operative Societies, 1919, Bengal.

[6] An Economic Survey in Mysore Malnad by Prof. S. K. Iyenger under the auspices of the Government of Mysore, 1925-26.

does the whole province. The Punjab has, in relation to its population, a very high percentage of money-lenders in India.[1] This fact, which gives an added weight to the value of Darling's inquiry, must also put us on our guard in drawing inferences for the whole country on the basis of the Punjab figures.

In 1894, Nicholson's inquiry into the indebtedness of the Madras Presidency showed that the total agricultural debt of the Presidency was about R. 45 crores.[2] Working on that basis, Sir Edward Maclagan estimated the total agricultural debt of India, in 1911, at R. 300 crores,[3] which gave an average of R. 13·3 per head of the cultivators.[4] The inquiries of Major Jack in the Faridpur district (in Bengal) in 1907 revealed an average debt of R. 10 per head of the cultivators.[5] Faridpur, however, is a well-to-do district, as Jack's figures show. In that district he found 55 per cent. of the cultivators free from debt,[6] while in the Punjab, taken as a whole, only 17 per cent. are not in debt; for some districts the percentage is as low as 5 per cent. and for no district does it exceed 25 per cent.[7] The Punjab, it may be pointed out, is

[1] 'In the whole of India, excluding this province, the Punjab, the proportion of money-lenders to total population is 1 : 367; here it is 1 : 300. Although the population of the Punjab is only one-eleventh of the whole, one-fourth of all money-lenders found in British India reside and work here.' (*The Wealth and Welfare of the Punjab*, by H. Calvert, 1922, p. 130.) The foregoing figures refer to 1911 and include dependents. For the position in 1921, see the map facing the first page.

[2] Nicholson, *op. cit.*, p. 241. [3] *Note on Agricultural Indebtedness*, p. 2.

[4] Average obtained by dividing R. 300 crores by 22 crores of persons who depended on pasture and agriculture in 1911 (*Census of India*, 1911, vol. i. part ii. p. 262).

[5] Jack, *op. cit.* p. 155.

[6] The figures he gives are:

	Per Cent of Cultivators.
Free from debt	55
In debt about ¼ of income	24
,, ,, ½ ,,	13
,, ,, 1 yr. income	7
,, ,, 2 yrs. income and more	1½

(*Ibid.* p. 155).

[7] Darling, *op. cit.* p. 5.

more heavily indebted than any other province,[1] but figures in regard to other provinces[2] show that Faridpur is by no means a typical Indian district.

The inquiries of Darling into the agricultural indebtedness of the Punjab were conducted in 1918-19, and embraced the whole province. They are based on entries in the returns prepared for the members of the Co-operative Credit Societies showing their *haisyat* or credit by those who are expected to know their real condition. Darling estimates the agricultural indebtedness of the Punjab at R. 90 crores, which gives an average debt of R. 76 per head of the agricultural population.[3] This is a very high figure as compared with Jack's and Maclagan's figures of R. 10 and R. 13·3 for a Bengal district, and the whole of India respectively. In order to arrive at a more satisfactory basis for generalisation, Darling relates the total agricultural debt of R. 90 crores to the total land revenue of the province and finds that the former is nineteen times the latter. He further makes an allowance for the fact that the Punjab is more heavily involved in debt than other parts of India, by taking a multiple of 17 instead of 19 and arrives at an estimated agricultural debt of not less than R. 600 crores for the whole of India.[4]

Darling's estimate of Indian agricultural debt thus turns out to be exactly double Sir Edward Maclagan's estimate of R. 300 crores made in 1911. It may be recalled that Maclagan had based his results on the figures of agricultural indebtedness in the Madras Presidency as estimated by Nicholson in 1894. It may well be that the agricultural indebtedness in India in 1911 was more than R. 300 crores. It is not unlikely that such a great difference in the two estimates may be due either partly or wholly to the fact that

[1] This is clear, not only from the very high proportion of money-lenders to cultivators in the Punjab, but also from the figures given below, on p. 133.

[2] See below, pp. 133-4.

[3] Darling, *op. cit.* p. 21.

[4] *Ibid.*

Darling's recent inquiries are more elaborate and exhaustive than Nicholson's. Any inferences from a comparison of the two estimates must therefore be taken with reserve. It is impossible to say merely from the above data, with certainty, that the agricultural indebtedness of India has increased in total volume since 1894. There are, however, some general considerations which may be taken into account. Agricultural debts in India are of two kinds—those which are secured by mortgage and those which are unsecured. The proportion of the one to the other, both according to Nicholson and Darling, appears to be almost equal. The value of land in the past twenty or thirty years has undoubtedly been rising. The higher the value of land, the bigger the sum of money a cultivator can borrow against it. No adequate statistics about the correlation between the rise in the value of land and the rise in secured loans have been available, even to the Royal Commission on Agriculture in India, but Mr. F. V. Wylie, Settlement Officer of the Peshawar district, has given some interesting figures in regard to one *Tahsil,* whose population is 1,64,000 and the total cultivated area 1,60,000 acres. According to him, in 1895, the total secured debt in that locality was R. 8,58,000 and in 1926, about R. 40,00,000, an increase of fivefold in the last thirty years. The average sale price of land in the same place for the quinquennium 1890-4 was R. 81 and for 1920-4, R. 407.[1] This shows that the mortgage debt has risen almost in the same proportion as the value of land.

But what about the unsecured loans ? Darling finds from personal inquiries that the credit of a cultivator, on the whole, seems to have risen during the past years. Here again, no satisfactory statistics are available, but one fact goes to support Darling's statement. It is noticeable that in recent years the villagers have been taking to modern articles whose sale was formerly confined to the towns. This is some

[1] *Royal Commission on Agriculture,* Evidence, vol. ix. p. 85.

evidence that the villagers' standard of living is slowly rising. This means a rise in the cultivator's credit and better credit is greater borrowing power. This line of argument assumes a rise in the cultivator's income. But, even if his income has not risen, the fact that his demand for goods is extending suggests that he is borrowing more largely.

Furthermore, we have seen that there has been an appreciable rise in the interest rate for unsecured loans during the last few decades, and at the same time compound interest has been piling up, which means inflation of a cultivator's debt. The rise in the prices of commodities is another relevant factor. If a man had to pay R. 40 and borrow the amount, for buying a bullock twenty years ago, he must pay, and borrow, three times the amount now for the same purpose. Similarly in the matter of social ceremonies, which are none the less exacting than they were thirty years ago, a much larger amount is needed owing to the rise in prices. All these factors seem to suggest an increase in the amount of total indebtedness, during the last few decades.

But, even if the total volume of agricultural debt has in fact increased in India, it may be urged that the population has also increased at the same time.[1] From the mere fact that the agricultural indebtedness in India has increased since 1894, it does not necessarily follow that the borrowers as a whole have to bear a greater amount of debt. On the other hand, it is quite conceivable that the total volume of indebtedness may increase and yet the indebtedness per head may remain the same or may even decrease in accordance with the rate of simultaneous increase in numbers. In order to measure the change that has occurred we must examine the amount of indebtedness per head of the population. According to Darling's inquiries, the average indebtedness per head of those who are supported by agri-

[1] The agricultural population was 19 crores in 1901, 22 crores in 1911, and 23 crores in 1921 (*Census of India*, vol. i. part i. 1911, p. 439; and vol. i. part i. 1921, p. 284).

culture in the Punjab in 1918-19 is R. 76. It is not possible to get adequate or satisfactory statistics for purposes of comparison, but the following, compiled from the sources available, are not without interest.

		Average Indebtedness per Cultivator.
1893-4	Madras [1] - - - -	R. 18
1906-10	Faridpur [2] - - - -	R. 10
1911	India [3] - - - -	R. 13·3
1921	India [4] - - - -	R. 26

From these figures it would appear that the agricultural indebtedness, not only in total volume, but also per head, has tended to increase during the last decade.

But this question of increase in the amount of agricultural indebtedness must not be confused, as is sometimes done, with another and more important question, the rise or otherwise in the real burden of indebtedness. A nominal increase in the total or even average indebtedness does not necessarily imply rise in the burden of indebtedness It is possible that the debt per head may increase and yet the burden per head diminish, if prices rise faster than the amount of indebtedness. The correlation of movements in prices with variations in the volume of indebtedness is a point that has not been considered by writers on the subject. The general price level in India, as in other countries, has been continuously changing. If the index number for the general price level for 1911 (the year of Maclagan's estimate) is taken as 100, in 1918-19 (the year of Darling's inquiries) it had risen to 184.[5] This shows that the prices rose by 84 per

[1] Obtained by dividing 45 crores (Nicholson's estimate of agricultural debt in Madras) by 2½ crores of persons who depended on agriculture in the Madras Presidency in 1891.

[2] Jack, *op. cit.* p. 155.

[3] See above, p. 127.

[4] Obtained by dividing R. 600 crores by 23·1 crores of persons depending on agriculture in 1921 (*Census of India*, 1921, vol. i. part ii. p. 200).

[5] Calculated from figures given in the Index Numbers of Indian Prices, 1911-19 (Government of India Publication).

cent. during the same period in which, according to Maclagan and Darling, the volume of agricultural indebtedness increased by 100 per cent. (from 300 to 600 crores of rupees). If these estimates of indebtedness represent any close approximation to the truth, it follows that the burden of indebtedness during the last decade has certainly remained undiminished and shows a tendency towards a slight increase. Recently Mr. Wylie, Settlement Officer of the Peshawar district, to whose evidence before the Royal Commission on Agriculture reference has already been made, stated for one *Tahsil* in Peshawar that, while the secured debt rose fivefold in the last thirty years the prices in that area had risen by about forty per cent. This shows for one *Tahsil* a considerable increase in indebtedness, which is not merely nominal, but largely real.

The foregoing argument is confirmed by the condition of the borrowers themselves. The careful inquiries of Darling indicate that the debtors are in as sad a plight as before. The annual reports of the Co-operative Credit societies for 1918-19 point in the same direction. My own investigation in 1924-26 and the replies received to the Questionnaire [1] reveal the same story. Thus the fact that the borrowers have not been able to take advantage of the fall in the real value of their debts is significant and is itself a sufficient indication that not only has the agricultural debt of India tended to increase during the last decade, but that the amount of increase in debt has been enough to offset the fall in its real value caused by a rise in prices.

But even more important than the question of changes in the burden of debt is the one of the numbers actually involved. Here again we are handicapped by the paucity of statistics, but the following table, compiled mostly from Darling's excellent book, gives some indication of the state of affairs.

[1] See Questionnaire, Q. 8, *Appendix*, I., p. 254.

		Percentage free from Debt.
1874	Central Provinces [1]	60
1888	The tenantry in the Agra District [2]	22
1894	Nagpur (18,000 tenants) [3]	40
1901	Baroda State [4]	40
1913	,, (The figure was thought to be much lower, but the exact figure is not given) [5]	
1907	Faridpur (Bengal) [6]	55
1919	Mysore State (24,350 Co-operators) [7]	37
1878-79	The Punjab [8]:	
	Gujranwala	20
	Gurdaspur	25
	Gurgaon	38
	Muzaffargarh	39
	Hoshiarpur	30
	Multan	50
	Dera Ghazikhan	33
	Jhang	50 to 60
1918-19	The Punjab as a whole [9]	17

These statistics are quite inadequate for purposes of comparison. In only two cases, *i.e.* Baroda and the Punjab, is information given for two different areas regarding the percentages free from indebtedness. In both these cases the percentage of the population involved in debt has increased in recent years. This is particularly marked in the case of the Punjab, where the percentage of non-debtors has fallen considerably. It is, perhaps, not altogether without significance that, as we run down the table, we find that, the

[1] *Note by Commissioner of Settlements and Agriculture, Central Provinces*, dated 15th January, 1889, in which over one-third of the proprietors were said to be in debt in 1874.

[2] *The Industrial Organization of an Indian Province*, by T. Morison, 1906, p. 103.

[3] Central Provinces Government letter, *op. cit.*

[4-5] Baroda State, *op. cit.* [6] Jack, *op. cit.* p. 98. [7] Mysore State, *op. cit.*

[8] *The Punjab Famine Report*, 1878-79.

[9] Darling, *op. cit.* p. 20. These figures are borne out by the *Reports on the Working of Co-operative Societies in the Punjab.*

more recent the inquiry, the less the percentage of those who are not indebted. Agra and Faridpur are exceptions, but they are both very small areas as compared with all the others which figure in the table. The data, however, do not warrant a conclusive inference for the whole country, and all that may be ventured is that, speaking generally, indebtedness has probably tended to increase in amount and to be extended over a larger part of the population during the last two or three decades.

(*B*) *Non-agricultural Indebtedness.*

If the agricultural indebtedness of India and its distribution are so difficult to estimate, her total indebtedness is still more so, for no estimate or inquiries in regard to non-agricultural indebtedness have yet been made. From the inquiries of Dr. Harold Mann and of the Rev. E. D. Lucas, it appears that average indebtedness per head of the total population is R. 40 and 48 in the two villages of the Deccan and those of the Punjab respectively, but they throw no light as to the proportion between the agricultural and non-agricultural indebtedness. Some indication with regard to the proportion can, however, be discovered from the following data to be found in Jack's inquiries.[1]

	Faridpur.	
	Population.	Debt (in rupees).
Agricultural - -	1,429,630	14,155,946
Non-agricultural -	431,553	5,991,286
Total - -	1,861,183	20,147,232

From these figures it would appear that the proportion of agricultural to non-agricultural debt is 100 to 42. Now it is

[1] Jack, *op. cit.* pp. 150 and 155.

curious that the composition of the population of Faridpur with reference to occupations, or the ratio of the agriculturists to non-agriculturists, is typical of the whole of India. According to the above data, 77 per cent. of the population is agricultural, while the figure for India is 73 per cent.[1] Working on the assumption that the non-agricultural indebtedness of India is 42 per cent. of the agricultural indebtedness, which for India is estimated at R. 600 crores, the non-agricultural indebtedness would appear to be R. 252 crores.

(*C*) *Summary of the Position.*

Aggregate Indebtedness. Adding the agricultural to the non-agricultural indebtedness, the aggregate indebtedness would be R. 852 crores. This gives an average debt of R. 27 per head of the total population. This is less than the average given by Mann and Lucas (40 and 48 respectively); but the Punjab and the villages of the Deccan to which their inquiries relate appear to be more than ordinarily indebted. On the other hand, it is slightly greater than the average per head for agricultural indebtedness (R. 26). Now a peasant borrows money mostly for the performance of ceremonies, which are equally pressing to the non-peasant. Both alike borrow also in order to carry on their calling, whether it be agriculture or cottage industries. In towns, perhaps, the non-peasant has to borrow, comparatively speaking, more than in the villages, because of the higher standard of living. It is very difficult to be precise, but it may be hazarded that the total indebtedness to money-lenders in India amounts to between 800 and 900 crores of rupees or from £600,000,000 to £650,000,000.

Present Tendency. It would be interesting to know whether the total private indebtedness in India at the present time tends to rise or fall. The problem, owing to lack of statistical data, does not lend itself to an arithmetical

[1] *Census of India*, 1921, vol. i. part i. p. 241.

analysis, but a bare statement of tendency may be attempted. So far as the causes of the growth of indebtedness during the last few decades are concerned, they do not show a material change in any direction. Illiteracy, ignorance, wasteful social customs, uneconomic habits, which are so greatly responsible for the burden of debt are still there. It is not to be denied that there has been improvement, but the rate of progress is undoubtedly slow.[1] The cultivator has, perhaps, better credit now than he had ten years ago, but better credit means greater ability to contract loans and, since the debtor still clings to his old social ideas and looks upon indebtedness as a matter of course, he borrows more freely. The credit facilities for rural India are appreciably improving in so far as the co-operative credit movement is gaining ground, but they have not yet replaced the money-lenders and are sometimes treated as an additional source of credit. With earnest efforts for improving agricultural conditions there is bound to grow a demand for more capital. So that the present tendency does not seem to be towards a reduction in the volume of loans.

Annual Toll of Money-lenders. Assuming that the total indebtedness is between R. 800 and 900 crores, what is the annual charge borne by the debtors? Or, in other words, what is the annual toll taken by the money-lenders? In order to answer this question the average interest charges must be estimated. Darling takes 15 as an average rate of interest for the Punjab.[2] As against this, Harold Mann's inquiries in the Deccan show that the average rate of interest for all kinds of debts in the southern villages is 23·4 per cent. while the 'mode' is 24 per cent.[3] Nicholson took an average rate of 18 per cent. in calculating the cost of borrowings in the Madras Presidency in 1894.[4] Now, as shown in a

[1] Taking illiteracy alone, the percentage of literates at over 10 years of age was 12·9 in 1901, 14 in 1911 and just over 16 in 1921 for male population (*Census of India*, 1921, vol. i. part i. p. 188).

[2] Darling, *op. cit.* p. 19. [3] Mann, *op. cit.* p. 120. [4] Nicholson, *op. cit.* p. 241.

previous chapter, the actual rates of interest charged by the money-lenders vary from 37½ to 300 per cent. in the case of unsecured loans and from 8 to 37½ per cent. in the case of secured loans. The proportion of secured and unsecured loans in India appears, according to both Nicholson and Darling, to be about equal. We have now to ask what average rate of interest must be taken for the whole of India. The rate given by Darling for the Punjab being in conflict with the rates given by other writers for other parts of the country, it is as well to examine the position in the Punjab first. Discussing this interesting question for the Punjab, Darling says that, 'as money became more plentiful and agriculture less secure, 18¾ per cent. came to be generally adopted for cash and 25 per cent. for grain loans. In districts like Jullandhar and Lyallpur, where there was a plethora of money, the cash rate fell to 12 and even 6 per cent.; conversely, in the more backward districts it did not fall at all. In the last three years, however, owing to a general scarcity of money in rural areas—so great this year (1923) that loans even against jewellery were sometimes refused—the rates have risen abruptly, a change accentuated in the central Punjab by the difficulty experienced in recovery, and in the less secured districts by the drought of 1920-21. *In some areas rates have actually doubled, and at least in one district (Hazara) they rose over* 50 *per cent.*'[1] He then goes on to give 12 to 18 per cent. as the rate for loans against jewellery and 9 to 12 per cent. for those against land (4 to 6 per cent. in cases where possession of the land is given to the lender) and, striking an average of all, comes to the conclusion that 'the peasant proprietor of the province can hardly pay *less* than 15 per cent. on his debt.'[2] The

[1] Darling, *op. cit.* p. 217. The italics are mine.

[2] Cf. 'The figure of 15 per cent., mentioned in Mr. Darling's *Punjab Peasant*, has frequently been quoted as applicable to the Punjab village, but it certainly does not apply to the poorer cultivators, who pay anything from 25 per cent. to 200 per cent. to the usurer' (*Report on the Working of Co-operative Societies in the Punjab for* 1926, p. 15).

saving word *less* is not without significance, as will appear presently. Then, referring to compound interest, he gives some illustrations. 'In 1896, a blacksmith of Hissar mortgaged his small plot of land for R. 26 at 37½ per cent. By 1906 the debt, without further loan, had swelled to R. 500, and in 1918—the judgment is before me as I write—decree was given for the amount in full.' [1] Now in this case, the rate of interest is neither 9 to 12 per cent., the rate given by Darling for loans against land, nor even 18¾ per cent., the rate for cash loans, but it is 37½ per cent. He goes on to say that 'at first sight this seems incredible, but, as Prof. Marshall points out, at 60 per cent. (*a rate by no means uncommon in India*), a debt of £1, if allowed to accumulate will become £100 in eight years.' [2] Here again the words I have italicised are significant, as the highest rate given before by Darling is 25 per cent. for grain loans. It might have been argued that the 60 per cent. was an uncommon rate, but Darling himself denies it. As if to confirm the denial still more clearly, he gives the following illustration taken from a recent assessment report. 'A Jat, called Telu, in the course of twenty years borrowed R. 350 and repaid R. 450. He now owes R. 1,000.' [3] This illustration, he remarks, 'is normal in every way.' It would therefore seem that 15 per cent. as the average rate of interest is an under-estimate. A precise estimate is impossible to give, but perhaps it would be nearer the truth to put the average rate at between 18 and 20 per cent. But even that is too low, if account is taken, as it must be taken, of the numerous other ways in which the money-lender helps himself. Darling mentions a number of malpractices, *e.g.* 'an anna is deducted from every rupee advanced and interest is charged upon the whole amount; a full year's interest is charged on a loan, though the latter may only have been taken a few months before the balance

[1] Darling, *op. cit.* p. 218. [2] *Ibid.*
[3] *Ibid.* p. 219.

is struck,' [1] etc. He especially refers to the grain loans and explains how they are even more costly than the cash loans, because the money-lenders make additional profits on them by advancing bad grain and receiving good grain, by adding one or two annas more than the market price per *seer* in the case of advance, and deducting the same from the market price in the case of payment, and by charging the same amount, say one-and-a-half *maund* of wheat in June, whether the original *maund* had been taken in October or March.[2]

Further, it must be recalled that, as shown in a previous chapter, the money-lender also receives various extras or so-called petty payments, which are neither petty nor infrequent. Taking everything into consideration, it would not be wrong to say that Mann's figure of 24 per cent. for Southern India is more reasonable for the country as a whole than Darling's estimate of 15 per cent., which is low even as a pure rate of interest for the Punjab, and which, of course, takes no account either of the malpractices or the extras which characterise money-lending all over India. Allowance must, however, be made for the bad debts of the money-lenders. They do not always get the interest they charge and not infrequently lose their principal, while they may have to incur expenditure on litigation. So, to be on the cautious side, 20 per cent. on the amount lent may be taken as the income accruing to money-lenders.

With an agricultural debt of R. 600 crores this means an annual charge of R. 120 crores and in the case of the total debt of about R. 850 crores an annual charge of R. 170 crores. If so, the annual toll levied on the Indian cultivators is a little over three times the land revenue and the toll on the whole population almost equal to the total revenue and well over four times the land revenue.[3]

[1] Darling, *op. cit.* p. 222. [2] *Ibid.*

[3] For the Punjab Darling's estimate of agricultural debt is about three times the land revenue (Darling, *op. cit.* p. 19).

CHAPTER VI

THE INDIGENOUS BANKERS AND THE JOINT-STOCK BANKS

THE preceding chapters have been devoted to an analysis of the system of indigenous banking as it functions in India at the present time. In this chapter we propose to discuss the relative positions which are occupied in the Indian money market by the indigenous bankers and money-lenders, on the one hand, and the joint-stock banks, on the other, and then examine the inter-connection which exists between the two. It will perhaps assist the process of clarification, if we begin by briefly reviewing the development of joint-stock banking in India down to the present times.

1. DEVELOPMENT OF JOINT-STOCK BANKING.

The history of joint-stock banking in India may well be deemed to fall into three periods :

(*A*) The Calcutta ' agency houses ' and banks from their establishment in the middle of the eighteenth century down to 1833 :

(*B*) Early joint-stock banks, 1833-1860 ;

(*C*) Joint-stock banks, 1860-1927.

The Presidency banks, and the Imperial Bank of India, formed by their amalgamation, in view of their special importance, are reserved for separate treatment.

A. The Calcutta Agency Houses.

Calcutta Agency Houses. The Precursors of Early Joint-stock Banking. To the Calcutta ' agency houses ' we need

make but passing reference, for their history[1] is hardly relevant to the present investigation. It has been already pointed out[2] how these trading firms undertook banking operations for the benefit of their constituents. Prominent among them were Messrs. Alexander & Co. and Fergusson & Co. They resembled their contemporaries in England, such as Messrs. Child & Co. of Temple Bar and Hoare & Co. of Fleet Street, in two respects. Both combined banking with other businesses, and both were the predecessors of early joint-stock banks. To Messrs. Alexander & Co. goes the credit of establishing in Calcutta in 1770 the Bank of Hindustan, which was the earliest bank under European direction in India. So important was the position which the 'agency houses' held in the early days of English trade with India that they were called the 'Merchant Princes.' Rise in this world is, often enough, followed by a fall, and such was also the fate of these mercantile houses.

Commercial Disasters of 1829-32 *and Bank Failures.* Thanks to the combination of banking with other business, coupled with reckless speculation and a policy of placing profits before safety, the inevitable happened during 1829-32, when commercial disasters overtook the trading firms and brought several to ruin. As might have been expected, the failures of 'agency houses' involved the collapse of their banking departments and of such banking institutions as then existed. It is significant that the Bank of Hindustan, which owed its origin to Messrs. Alexander & Co. and had 'successfully withstood three severe runs on it, the first in 1791, the second in 1819 and the third in 1829,'[3] could not survive the failure of its parent firm in 1832, and closed its doors the same year. The Calcutta Bank which had been opened by Messrs.

[1] Interesting information regarding these is to be found in *The Rise, Progress and Present Condition of Banking in India*, by C. N. Cooke, 1863, and *History of the Presidency Banks*, by J. B. Brunyate, 1900.

[2] See above, Chapter I.

[3] *Early European Banking in India*, by H. Sinha, 1927, p. 5.

Palmer & Co., had already failed in 1829, and the Commercial Bank of Calcutta also went to the wall with Messrs. Mackintosh & Co., in 1833.[1]

(*B*) *Early Joint-stock Banks*, 1833-1860.

Banks of Unlimited Liability. The early banks under European direction which rose after the high mortality of the Calcutta 'agency houses' may be characterised generally as being based upon unlimited liability and, in this respect, they may be distinguished from the banks which came into existence after 1860. This may be inferred from the fact that there was no legal enactment providing for the application of the principle of limited liability to banks in India before 1860.[2]

Below is given in a tabulated form the salient features compiled from the wealth of interesting facts and figures which are contained in Cooke's *The Rise, Progress and Present Condition of Banking in India*, which is a valuable treatise on the history of Indian Banking up to 1863.[3]

Banks started for the Civil and Military Services. The first fact which plainly emerges from the above analysis is that, since the 'agency houses' which acted as bankers to the civil and military services were swept away in the crisis of 1829-32, need was felt to have some other credit institutions for the benefit of the members of these services. So we find that the Agra and United Service Bank, Ltd. and the Government Savings Bank, Calcutta, were almost immediately opened for this specific purpose, the first in July and the second on 1st November, 1833. Later the Agra Savings Fund was opened in July, 1842, and the Uncovenanted

[1] Shirras, *op. cit.* p. 237.

[2] But there is evidence to show that the General Bank of India established in 1786 was conceived and run on the principle of limited liability. For an interesting account of this institution see *Early European Banking in India*, by H. Sinha, 1927, pp. 9 *et seq.*

[3] The book is rare, but there is one copy in the London School of Economics Library to which the writer had access thanks to the Librarian.

Name of the Bank.	Opened.	Closed.	Head Office.	Branches.	Causes of Failure.	Remarks.
	Year.	Year.				
1. The Agra and United Services Bank	July, 1833	1900	Agra	Agency at Calcutta, 1837. Madras, 1843. Bombay, 1845. London, 1846. Lahore 1853. Canton 1854. Shanghai 1858.	—	Founded primarily for the benefit of members of the Civil and Military Services after the failure of the Agency Houses.
2. The Bank of Mirzapur	1835-36	1837	Mirzapur	Agent at Calcutta.	Mismanagement. Want of confidence in its note issue.	—
3. North-Western Bank of India	1840	1859	Mussoorie	Calcutta 1849, London and Lahore.	Trading in indigo by bank's agents with bank's money.	Put into liquidation in 1859.
4. The Agra Savings Bank	Jany. 1842	—	Agra	—	—	Opened for members of uncovenanted Services. Registered in 1860 as Agra Savings Bank, Ltd.
5. Delhi Banking Corporation, Ltd.	1844	—	—	Allahabad. Calcutta. Lucknow. Mussoorie.	—	Registered in 1860 as a joint-stock bank.

Name of the Bank.	Opened.	Closed.	Head Office.	Branches.	Causes of Failures.	Remarks.
	Year.	Year.				
6. The Simla Bank, Ltd.	19 Nov., 1844	—	Simla	Umballa, Calcutta, Lahore, Delhi, Agra, Bombay, Madras, London (1854).	—	—
7. The Benares Bank	1844-45	1849	Benares	—	Speculation and irregularities	—
8. The Cawnpore Bank	1845	1851	Cawnpore	Patna and Tirhut.	—	—
9. The Commercial Bank of India	1845	—	Bombay	—	—	For local trade.
10. Uncovenanted Service Bank, Ltd.	1846	1891	Agra	—	—	Reg. in 1860 as a joint-stock bank.
11. Dacca Bank	1 July, 1846	Feb. 1862	—	—	—	Amalgamated with the Bank of Bengal.
Government Institution.						
12. The Government Savings Bank	1 Nov., 1833	—	Calcutta	—	—	Started after failure of the Agency Houses.

(NOTE.—While Cooke gives many interesting facts about these banks, he sometimes leaves out important particulars. Hence the gaps in the above analysis.)

Service Bank on March 17th, 1846, for members of the Uncovenanted services.

High Banking Mortality. Another fact which is very striking in the above tables is the high death-rate of banks during the period 1833-1860. Of the twelve banks which came into being in the course of these twenty-eight years, about half died out.

Due to Speculation and Fraud. The failures of these banks may, in the first instance, be ascribed to speculation on the part of those responsible for their origin, organization and management. The collapse of the Benares Bank in 1849 and of the North-western Bank of India in 1859 were largely due to the adoption of a policy of speculation and trading in indigo by the banks' agents with the banks' money. But the Benares Bank's failure was also caused by notorious irregularities and fraud.

Cooke has given a long account of the fraud which characterised the affairs of the Benares Bank and which is indeed sad reading. 'The whole history of the bank reads like a bucket-shop circular. The Directors held out promises that could not be realised, and the delusion was maintained by prevarication. No wonder that the episode finished with the Chief Director's bankruptcy and the cashiering after a court-martial in Simla of two officers from the army.' [1]

Defective Audit. The explanation of the existence of a banking system in which such mismanagement and fraud was made possible seems to lie in the loose auditing of accounts which obtained in those days. Effective audit is always indispensable to the growth of healthy banking. In India we find no law on the statute book providing for the qualifications of a bank auditor up to 1860—the end of the period we are considering. Act VII of 1860, which authorised the establishment of joint-stock banks with limited liability, omitted the subject of audit altogether.

[1] Shirras, *op. cit.* p. 354.

Successful Banks. On the other hand, some banks, like the Agra and United Services Bank, the Simla Bank and the Dacca Bank, gave a good account of themselves. The first two had branches in the country and in London, and the Agra Bank had branches even in Canton and Shanghai.

Early Joint-stock Banks and the Indigenous Bankers. Before we go on to consider the joint-stock banks from 1860 onwards, we might pause to consider how the indigenous bankers got on with their new compeers. That there was no liaison between the two has been already pointed out.[1] The indigenous bankers still held a predominant place in the credit organization of the country. 'More than half of the mercantile wealth of India,' writes Tod in 1829, 'passes through the hands of the Jain laity. . . . The officers of the state and revenue are chiefly of the Jain laity, as are the majority of the bankers from Lahore to the ocean.'[2]

But according to Cooke, the indigenous bankers do not seem to have been slow to take advantage of such facilities as the new credit institutions afforded them. In regard to the remittance facilities for transferring funds to Calcutta which were afforded by the Mirzapur bank, he observes that 'the punctuality which characterised these transactions for a time, inspired the *mahajans* with confidence and they began to lend to him [the founder of the bank] and take his notes, of which he had sent a good supply to Calcutta to be put into circulation.'[3]

(C) *Joint-stock Banks*, 1860-1927.

The Year 1860 *marks a new era in Indian Banking.* The year 1860 stands out as an important landmark in the history of Indian Banking, for it was by Act VII of that year that the principle of limited liability was first applied to the joint-

[1] See above, p. 25.

[2] *Annals and Antiquities of Rajasthan*, by J. Tod, 1829, vol. i. pp. 518-9.

[3] Cooke, *op. cit.* p. 204.

stock banks. It may be of interest to note that in England the same principle was extended to banking institutions in 1858, although liability for note issue still continued unlimited. But hardly had this important banking legislation been introduced in India than disasters of no common magnitude overtook it.

Bombay in the Throes of Speculation, 1862-65. Following upon the outbreak of civil war in America, the supply of cotton from that quarter to Lancashire was stopped, and the English cotton industry was obliged to look to India as her main source of supply. All hands got busy in the cotton-producing areas of the country and Bombay being an important export centre for that crop, it was not long before people there began to lose their heads over such a lucrative opportunity of making money. Such indeed was the profit from dealing in cotton that the Surat cotton, 'which prior to 1863 was sold in the Liverpool market at 3 to 5 pence per lb. with an exchange of 2 shillings or very near it, began to fetch as much as 20 to 24d.'[1] In 1861 the value of the cotton exported was recorded as R. 5 crores and in 1864-5 as R. 29 crores, a figure never reached before.

Flotation of Banks. Financial Associations and Khadas. The sudden and unexpected expansion of the cotton trade brought to the country immense wealth in precious metals. It also led to a wave of speculation, of which the flotation of financial institutions was a prominent and unfortunate feature. It become the fashion to begin by launching a bank, following it up by the formation of a financial association and finally of a land reclamation company, called in those days a *khada*. Sir Dinshah Wacha, in his *Financial Chapter in the History of Bombay City*, has given a long list, covering seven pages, of twenty-five banks, thirty-nine financial associations and seven land reclamation companies and other

[1] *A Financial Chapter in the History of Bombay City*, by Sir Dinshah Wacha, 1910, p. 12.

miscellaneous joint-stock concerns which were promoted and floated in 1864-65 and then ceased to be. They involved a paid-up capital of about R. 30 crores.[1] Such was the havoc caused by speculation in Bombay in 1864-65.

Period of Quiescence, 1865-1905. The crisis was followed by a period of comparative quiescence which, except for a brief break during 1890-1900, lasted from 1865 right up to 1905. This may be seen from the following statistics : [2]

JOINT-STOCK BANKS WITH CAPITAL AND RESERVE OVER 5 LAKHS, 1870-1905.

(In Thousands of Rupees.)

On 31st December.	No. of Banks.	Capital.	Reserve and Rest.	Total.	Deposit.	Cash Balances.
1870	2	9,83	1,82	11,65	13,95	5,07
1880	3	18,00	3,11	21,11	63,37	16,63
1890	5	33,50	17,59	51,09	2,70,78	55,79
1900	9	82,12	45,60	1,27,72	8,07,52	1,19,04
1904	8	81,49	63,90	1,45,39	11,51,12	1,43,77
1905	9	84,57	77,82	1,62,39	11,98,92	1,73,50

In the foregoing table two facts call for notice. Firstly, although the country had enjoyed a period of quiet ever since the Bombay financial crisis of 1862-65, the total capital and reserve of all the nine joint-stock banks in existence in 1905 did not quite amount to R. 2 crores (£1,500,000),[3] and their aggregate deposits in that year stood at less than R. 12 crores (£9,000,000). Secondly, the proportion of cash to liabilities on deposits had gone down by 1905 to 12 per cent. a strikingly low figure for a country like India. But these features, which reveal joint-stock banking before 1905 in an unfavourable light, did not prevent the establishment,

[1] Sir Dinshah Wacha, *op. cit.* p. 24.

[2] *Statistical Tables relating to Banks in India*, 1st issue, 1915, p. 5.

[3] At 1s. 6d. exchange.

during this period, of three very important joint-stock banks, viz., the Allahabad Bank, in 1865, the Alliance Bank of Simla, in 1874, and the Oudh Commercial Bank in 1881. Of these the Alliance Bank of Simla went into liquidation in 1923, but the other two still survive and are among the biggest joint-stock banks of to-day. The majority of the joint-stock banks founded before 1905, including the three just mentioned, were established by Europeans.

Causes of Quiescence. Why, it may be asked, are these forty years, from 1865 to 1905, a period of comparative inactivity in the history of Indian banking? It is obvious, of course, that the Bombay disasters of 1865 and the preceding years, in which so many companies with rupee capital and Indian management were completely ruined, must have broken the spirit of indigenous enterprise for some time. Nor were the institutions under European direction immune from trouble. It was the speculative panic of 1865 that brought to the Bank of Bombay the disgrace of liquidation proceedings in 1868. From these, however, the Bank came out unscathed and it re-started work the same year.

But, allowing ten years for recovery from the Bombay panic, why did joint-stock banking not make good progress from 1875 onwards? Surely there must have been some more serious factor impeding the growth of joint-stock banks than the mere memory of the Bombay disasters. There is, in fact, an important phenomenon which fully explains the situation. It was soon after the seventies that the gold price of silver began to fall and, since India was then on the silver standard, every fall in the value of silver altered the rate of rupee exchange, and added to the burden of the Indian Government, which had to find more revenue to meet its sterling liabilities or the 'Home Charges' in London. Every alteration in the Anglo-Indian rate of exchange also increased the element of uncertainty in the foreign trade of India and affected her industries.

This state of affairs continued without intermission until 1893. In that year the Indian mints were closed to the free coinage of silver and the position returned to normality in 1898. It is not without significance that the progress of joint-stock banking, though small before 1890, was comparatively great during 1890-1900. This clearly indicates the existence of correlation between the currency troubles, on the one hand, and the slow growth of joint-stock banking, on the other.

The currency troubles affected joint-stock banking in two ways. Firstly, attention was entirely devoted to the stabilisation of the currency, to the exclusion of questions relating to the development of banking. No one who carefully reads the reports of the various commissions and committees appointed from time to time to consider the problems of Indian currency and exchange can fail to notice one remarkable feature which is common to all except the last, the commission of 1926. The mistake has been repeatedly made in India of attempting to solve the currency and exchange problems without securing a sound and strong banking system. The second respect in which the currency upheaval of 1875-1893 affected Indian joint-stock banking was by causing trade uncertainties to create such conditions and atmosphere in the Indian money-market as were unfavourable to the promotion of new banking ventures. This may explain Keynes' observation that 'no entirely new Exchange Bank now (in 1913) surviving was founded between 1864 and 1919.'[1] The exchange conditions had practically settled down by 1905, but they were again disturbed by the exchange crisis of 1907-8.

Swadeshi Movement, 1906-13. With the cessation, by the beginning of the present century, of the exchange troubles came the wave of the well-known *Swadeshi* movement of 1906-13, in which Indians, under the influence of national

[1] *Indian Currency and Exchange*, by J. M. Keynes, 1913, p. 107.

sentiment, eagerly set out starting many new institutions. It is a striking fact that, in the short span of these eight years, there sprang up not only numerous industrial concerns, but also a large number of new joint-stock banks, as appears from the following statistics :[1]

JOINT-STOCK BANKS WITH CAPITAL AND RESERVE OVER R. 5 LAKHS (1906-13).

Year. I	No. of Banks. II	Capital and Reserve (R. lakhs). III	Deposits (R. lakhs). IV	Cash Balances (R. lakhs). V	Ratio of V to IV.
1906	10	1,90	11,55	1,49	13
1907	11[2]	2,92	14,00	1,94	14
1908	14	3,09	16,26	2,45	15
1909	15	3,54	20,49	2,79	14
1910	16	3,76	25,66	2,80	11
1911	18	4,12	25,29	3,62	14
1912	18	4,26	27,26	4,00	15
1913	18	3,64	22,59	4,00	18

The number of banks with a captal and reserve of over 5 lakhs was thus during 1906-13 doubled, but the number of smaller banks which sprang up was very much larger. Of the 98 banks which fell during 1913-19,[3] as many as 58 were born in the boom of 1906-13.[4] But most of the existing important joint-stock banks also were established during these years. Amongst them may be mentioned the Bank of India (1906), the Indian Bank (1907), the Punjab and Sind Bank (1908), the Co-operative Hindustan Bank (1908), the

[1] *Statistical Tables relating to Banks in India*, 1st issue, 1915, p. 5.

[2] The figure given in the *Statistical Tables*, and also in Shirras, *op. cit.* p. 470, is 20, but this seems an obvious misprint. The correct figure is 11 (Keynes, *op. cit.* p. 224).

[3] The banks which have failed since 1919 were mostly established after 1913.

[4] These figures are arrived at by an analysis of the information given in the annual *Statistical Tables relating to Banks in India.*

Bombay Merchants' Bank (1909), the Central Bank of India (1911), and the Bank of Mysore (1913).

Apart from the rapid growth in the number of joint-stock banks, another fact which emerges with equal plainness from the foregoing table is the unsteady and low proportion of the banks' cash to their liabilities on deposits. The year 1913 showed some improvement in this respect, when the ratio had risen to 18 per cent., but it is noticeable that this rise in the proportion of cash to liabilities on deposits was accompanied by a reduction in the deposits. Moreover, even 18 per cent. was not a high ratio in the peculiar conditions of India, and on the whole the banks' cash position during 1906-13 was anything but satisfactory.

The Bank Failures of 1913-17. The period of boom was followed by the crash of 1913-17, in which the total paid-up capital of the banks that failed was no less than 51 [1] per cent. of the total paid-up capital of the joint-stock banks surviving in 1917. An idea of what happened may be gathered from the following table : [2]

LIQUIDATIONS.

Capital (in Lakhs of Rupees).

Year.	Number.	Authorised.	Paid up.
1913	12	2,74	35
1914	42	7,10	1,09
1915	11	56	5
1916	13	2,31	4
1917	9	76	25
Total	87	13,47	1,78

So within five years, as many as 87 banks with a paid-up capital of R. 1,78 lakhs went into liquidation in a country which was, and still is, without many joint-stock banks. It

[1] *Statistical Tables relating to Banks in India for* 1917, p. 2.

[2] Shirras, *op. cit.* p. 366.

is true that most of the institutions which disappeared were small and weak, but with them were taken away the following comparatively big banks as well.

	Paid-up Capital (in Lakhs of Rupees).
1. The Indian Specie Bank	75
2. The Peoples' Bank	13
3. The Credit Bank of India	10
4. The Standard Bank of Bombay	10
5. The Bank of Upper India	10
Total	1,18

Banking Crises in India and their Lessons. The foregoing analysis reveals an important fact which must not be lost sight of. It will be seen that the banking crisis of 1913-17 is by far the most serious from which India has suffered since the introduction of European banking into the country. But it cannot be seriously maintained that the bank failures of 1913 and the following years could not possibly have been anticipated and therefore averted. Indeed, it is obvious that the same fundamental causes which were responsible for the destruction of the Calcutta ' agency houses ' in 1829-32 and the ruin of so many banks and financial companies in 1862-65 were still at work and brought about the disasters of 1913-17, from whose effects the Indian banking system has perhaps not yet completely recovered. These causes, we may repeat, are speculation, mismanagement and fraud. Of fraud there may now be very little in evidence, but as to whether the existing banking institutions are free, in their working, from elements of speculation and mismanagement, a decisive answer in the affirmative is difficult to give. Judging from an analysis of the present position given below, I am not certain that we have yet learnt the lessons which our past failures might well teach us.

Present Position of the Joint-stock Banks. According to the latest statistics available at the time of writing, it appears that in 1926 there were 73 joint-stock banks from which

returns were received by the Government of India. Of these, 27 had a paid-up capital and reserve of R. 5 lakhs and over, and 46 were smaller banks with a paid-up capital and reserve of from one lakh to five lakhs.

For gauging the progress of joint-stock banking in India since the crisis of 1913-17, the following statistics will be found useful.

CAPITAL, RESERVE, DEPOSITS AND CASH BALANCES OF THE PRINCIPAL INDIAN JOINT-STOCK BANKS ON 31ST DECEMBER EACH YEAR.[1]

1913-1926.

	CLASS A.				CLASS B.			
Year.	No. of Banks	Capital and Reserve.	Deposits.	Cash Balances.	No. of Banks.	Capital and Reserve.	Deposits.	Cash Balances.
		R. lakhs.	R. lakhs.	R. lakhs.		R. lakhs.	R. lakhs.	R. lakhs.
1913 (pre-war Year)	18	3,64	22,59	4,00	23	50	1,51	25
1914	17	3,93	17,11	3,53	25	55	1,26	28
1915	20	4,38	17,87	3,99	25	55	91	20
1916	20	4,61	24,71	6,03	28	63	1,01	17
1917	18	4,67	31,17	7,65	25	54	99	20
1918	19	6,02	40,59	9,49	28	63	1,55	37
1919	18	7,63	58,99	12,17	29	75	2,28	54
1920	25	10,92	71,15	16,31	33	82	2,33	42
1921	27	12,40	76,90	15,66	38	1,00	3,26	44
1922	27	10,64	61,64	12,04	41	1,11	3,38	56
1923	26	9,73	44,43	7,37	43	1,11	3,26	61
1924	29	10,71	52,50	11,30	40	1,07	2,67	34
1925	28	10,60	54,49	10,10	46	1,18	3,42	68
1926	27	10,69	59,62	9,11	46	1,23	3,46	82

Resources Increasing. The first fact which emerges from a study of the above table is the increase in the total resources of the joint-stock banks which has taken place since 1913, the pre-war year. This will be evident from the following summary of the statistics.

(In Crores of Rupees.)

	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926
Capital and Reserve.	4	4	5	5	5	7	8	12	13	12	11	12	12	12
Deposits	24	18	19	26	32	42	61	73	80	65	48	55	58	63
Total	28	22	24	31	37	49	69	85	93	77	59	67	70	75

[1] *Statistical Tables relating to Banks in India in* 1926, p. 2.

Set-back in Recent Years. The foregoing table shows that the progress in the total resources of the banks has not been steady during the last decade. All the three sets of figures of Capital and Reserve, Deposits and Total Resources, follow throughout the same general trend. It is, perhaps, most important to follow the statistics of deposits, the movement of which shows the varying position of the banks in the money-market and the confidence they enjoyed in it. Starting with 1913, we find a fall of R. 6 crores in the deposits in the very next year, which may be accounted for by the banking crisis of that time. From 1915 onwards the deposits are seen mounting up with increasing rapidity until in 1921 the record figure of R. 80 crores is reached. Then follows an almost equally rapid fall, culminating in 1924, when the deposits have declined to R. 55 crores. It may be argued that these were exceptional years of inflation followed by deflation, in which there were marked movements in the general price-level. In order to allow for this phenomenon, let us convert the statistics of deposits for the various years in terms of the pre-war price-level. The result is as under :

	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925
General Index of Price-level	100	103	106	129	137	157	166	183	173	164	154	158	159
Deposits (Nominal)	24	18	19	26	32	42	61	73	80	65	48	55	58
Deposits converted to Pre-War Value	24	17	18	20	23	27	36	40	46	40	31	35	36

(*N.B.*—The Deposits are in Crores of Rupees.)

The position of joint-stock banking, judging from the variations in the amount of deposits in recent years, even after taking into account the price movements, is not free from anxiety. This becomes clear if the figures are reproduced in diagrammatic form.

DEPOSITS OF THE JOINT-STOCK BANKS, 1913-1925.

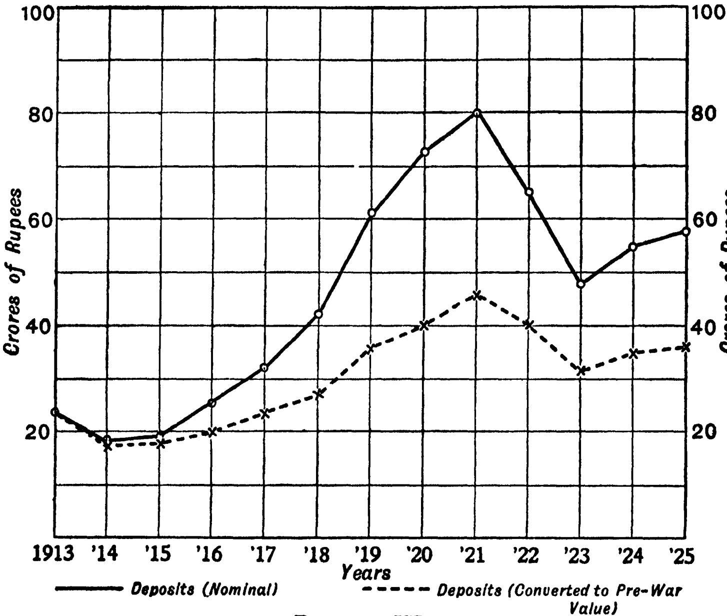


DIAGRAM III.

In the foregoing diagram it will be seen that the two curves representing deposits follow the same trend. But the rises and falls in the case of the curve that makes allowance for variations in the general price-level are less pronounced than is the case with the curve representing the nominal value. If we look at the former, two facts at once stand out, a continuous rise in deposits, with an accelerated pace towards the maximum in 1921, and a sharp fall in 1923. The rise may be accounted for by the extraordinary activity in trade and the flotation of new companies in the post-war boom. The world-wide trade depression which followed the brief boom, and in which India had her share, coupled with the collapse of the Indian exchange in 1920-21, explains the fall in the deposits in 1923. Since then they show signs of slow recovery. Of course, the economic conditions in India

in 1921 and 1923 were exceptional, but the fall of R. 15 crores (R. 22 crores, if no allowance is made for changes in prices) in deposits within two years is a clear indication of the weakness of the Indian banking system in face of unfavourable conditions. That on the whole there has been a considerable inprovement since 1913 must be admitted, but that the banks have still to consolidate their progress must not be ignored.

Proportion of Cash to Liabilities. In this connection the proportion of banks' cash to their liabilities on deposits is a good index of their strength to avert a crisis, or to meet one when it comes. The position for the last five years for which statistics are available [1] is as under:

PERCENTAGE OF CASH TO LIABILITIES ON DEPOSITS.

	1922.	1923.	1924.	1925.	1926.
Joint-stock Banks.	%	%	%	%	%
(*A*) Capital and Reserve over 5 lakhs - -	20	17	21	19	15
(*B*) Capital and Reserve between 1 and 5 lakhs -	17	19	13	20	24

Of the two classes of banks, the proportion in the case of those with capital and reserve under R. 5 lakhs shows clear improvement. But the steady fall in the cash reserve of the banks with over 5 lakhs of capital and reserve is very noticeable. This is all the more serious when we realise that the bank failures in India are not yet a thing of the past. To bring out the point we need do no more than give the following table [2] which tells its own tale.

[1] *Statistical Tables relating to Banks in India for* 1926, p. 7.

[2] *Ibid.* p. 25. In this table the smallness of the *paid-up* capital as compared with the *subscribed* and still more with the *authorised* capital will be readily noticed.

STATEMENT SHOWING FAILURES OF INDIAN JOINT-STOCK BANKS FROM 1918-1926.

Year.	Number of Companies involved.	Capital.		
		Authorised.	Subscribed.	Paid-up.
		R.	R.	R.
1918	7	2,09,49,970	4,85,651	1,46,185
1919	4	52,50,000	6,47,185	4,02,737
1920	3	10,40,000	7,67,700	7,24,717
1921	7	70,40,000	5,80,965	1,25,329
1922	15	10,15,55,000	27,25,744	3,29,991
1923	20	21,86,89,995	9,92,36,480	4,65,47,325
1924	18	6,30,30,925	26,46,370	11,33,623
1925	17	1,89,80,000	25,41,695	18,75,795
1926	14	70,80,000	7,05,815	3,98,145

There is a striking parallel between the bank failures of 1922-26 and those of 1913-17, whose seriousness we have already noticed. During 1913-17, 87 banks had failed, with a paid-up capital of R. 1·78 crores, which was equivalent to 51 per cent. of the total paid-up capital of the joint-stock banks in existence. The corresponding figures for 1922-26 are 84 banks with R. 5 crores of paid-up capital or 42 per cent. of the total paid-up capital and reserve of the existing banks.

Geographical Distribution of Bank Failures, 1913-1926. Having dealt with the history of the Indian bank failures, a word may be said relating to their geographical distribution. For this purpose the following table (p. 159) has been compiled.

Thus the Punjab has the highest bank mortality, having lost as many as 64 banks out of the 192 banks which have failed during 1913-26. The next Provinces in the order of casualties are the United Provinces, with 39 failures, and the Bombay Presidency, with 28.

Why is it that, in respect of bank failures, these three provinces fared so badly, while some parts, such as the

BANK FAILURES, 1913-26.

	1913	1914	1915	1916	1917	1918	1919	1920	1921	1922	1923	1924	1925	1926	Total.
The Punjab	6	29	3	2	1	1	1	—	1	2	3	5	6	4	64
United Provinces	—	8	4	4	4	1	—	3	—	6	4	1	4	—	39
Bombay	4	—	1	5	2	2	1	—	2	1	5	3	2	—	28
Madras	—	2	—	1	1	—	—	—	1	2	3	6	—	5	21
Bengal	—	—	—	—	—	2	2	—	—	—	5	2	3	—	14
Mysore	—	—	—	—	1	1	—	—	—	3	—	—	—	1	6
Delhi	—	2	—	1	—	—	—	—	—	—	—	—	1	1	5
Travancore	—	—	—	—	—	—	—	—	3	—	—	1	—	1	5
Bangalore	—	—	3	—	—	—	—	—	—	—	—	—	—	—	3
North-West Frontier Provinces	1	1	—	—	—	—	—	—	—	—	—	—	—	—	2
Behar and Orissa	—	—	—	—	—	—	—	—	—	—	—	—	—	2	2
Baluchistan	1	—	—	—	—	—	—	—	—	—	—	—	—	—	1
Central Provinces and Berar	—	—	—	—	—	—	—	—	—	1	—	—	—	—	1
Burma	—	—	—	—	—	—	—	—	—	—	—	—	1	—	1
	12	42	11	13	9	7	4	3	7	15	20	18	17	14	192

Central Provinces and Burma, have almost a clean record? The explanation seems to lie in the importance of these three provinces as the trade marts of the country. The Punjab is the greatest wheat-producing province of India, the United Provinces taking the next place. Bombay has always been one of the principal ports and a centre for speculation, especially in cotton and in silver. Therefore, during the Swadeshi movement of 1906-13, most of the new banks were established in these provinces, particularly in the Punjab, in order to take advantage of the growth of the canal colonies there. When the crash came in 1913, and the following years, these were naturally the parts which were the worst hit.

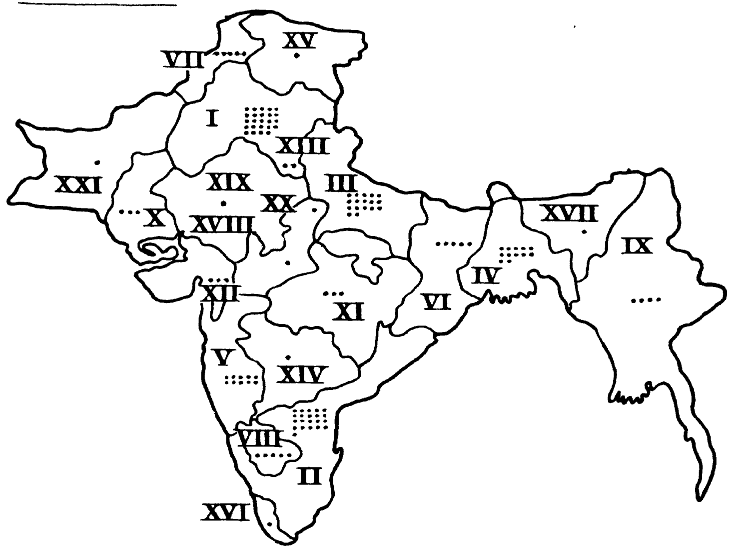
Geographical Distribution of Banks in 1926. This brings us to the question of the geographical distribution of the existing joint-stock banks. But, before considering it, a word may be said about the policy of the joint-stock banks in regard to the extension of banking facilities within the country. In this respect again, the Indian joint-stock banks may be contrasted with similar institutions in England and other parts of the Empire, not to speak of other countries. Although the Allahabad Bank—which is the oldest surviving Indian joint-stock bank—was established in 1865, it was not until twenty-three years had elapsed that the first branch was opened at Allahabad. In 1926 (the latest year for which figures are available) there were only a little over 600 head offices and branches (including those of the Imperial Bank of India), scattered over an area of 1,900,000 square miles and for a population of 318 millions.

How exactly these banking establishments are distributed in the various provinces may be seen from the annexed map. It will be seen that the joint-stock banks are fairly distributed in the Punjab, the United Provinces and the three Presidencies, thanks to the opening of a hundred new branches by the Imperial Bank of India in some

Geographical Distribution of Joint-Stock Banks in India

in 1926.

I.	The Punjab	121
II.	Madras	107
III.	United Provinces	87
IV.	Bengal	61
V.	Bombay	49
VI.	Behar & Orissa	26
VII.	N.W.F. Provinces	24
VIII.	Mysore	23
IX.	Burma	19
X.	Sind	16
XI.	Central Provinces	14
XII.	Baroda	13
XIII.	Delhi	11
XIV.	Hyderabad	7
XV.	Kashmir	5
XVI.	Travancore	5
XVII.	Assam	4
XVIII.	Central India	4
XIX.	Rajputana	4
XX.	Gwalior	3
XXI.	Baluchistan	3



(N.B. One red dot represents five banks. The number of bank establishments in each province is denoted against it in the above list. The Imperial Bank of India branches are included).

of the parts which had been neglected by the presidency banks.[1] But there are still large areas, where banking facilities are inadequate, and, in this respect, the Indian Native States are the most backward.

The Business of the Indian Joint-stock Banks. Having seen how inadequate is the number of joint-stock banking institutions, let us see what is done by such as exist. The Indian joint-stock banks perform all the general banking functions, but they do not concern themselves with foreign exchange business, for which there are Exchange banks.

The joint-stock banks, as a rule, have no direct hand in the financing of agriculture, which is the preserve of the indigenous bankers and money-lenders, and in recent years, of the co-operative societies. Nor do the joint-stock banks care to deal with small artisans or traders who cannot afford to give approved security and about whom the banks have no local knowledge.

The main business of the joint-stock banks, then, is confined to the financing of trade and industry in the Presidency towns and large commercial centres. There is no important industrial bank in India, the Tata Industrial Bank, which was the only one such bank, having failed in 1923. The position is rather difficult. Complaint is repeatedly made of the inadequacy of banking facilities for industries. But the banks too often lack the knowledge requisite for gauging the soundness of industrial ventures, while they are rendered cautious and suspicious by their past unhappy experiences. The Indian Industrial Commission of 1918 drew special attention to industrial banking. Since then the External Capital Committee of 1925 and the Royal Commission on Indian Currency of 1926 have recommended a survey of the whole field of Indian banking. The present position of the joint-stock banks is unenviable. Their connection with the indigenous bankers is too irregular and incomplete for them

[1] See below, table on p. 169.

to obtain sufficient business from them, while there is no Central Bank on which they can depend for help in time of danger.

2. DEVELOPMENT OF CENTRAL BANKING.

The idea of a Central Bank for India is not a new one. As early as 1836, a number of English merchants appear to have petitioned the Government of the day for permission to establish what would now be called a Central Bank. Since then, from time to time, the project of a Central Bank has been the subject of discussion, until, early in 1928, a Reserve Bank was all but established. As some of the functions of a Central Bank were before 1921 performed by the Presidency banks and since then have been performed by the Imperial Bank of India, their position must first be examined.

(A) The Presidency Banks.

The first Presidency bank was the Bank of Calcutta, opened on 2nd June, 1806, with a capital of R. 50,00,000, divided into five hundred shares. On 2nd January, 1809, it received a charter by which its name was changed to that of the Bank of Bengal.[1] The Bank of Bombay was established by Act III of 1840, with a capital of R. 52,25,000 divided into 5,225 shares. The Bank of Madras came into existence on 1st July, 1843, by Act No. IX of that year.[2] Its capital was only R. 20 lakhs. The total capital of all the three Presidency banks was thus R. 122·25 lakhs.[3]

Original Shareholders. It is of interest to note that, while the shares of the Presidency banks were originally subscribed mainly by the Europeans, there were some Indians among the shareholders. This is particularly true of Bombay, as

[1] This must be distinguished from the older institution, the Bengal Bank, which existed in Calcutta from 1790 to 1800.

[2] Prior to it, there existed a Government Bank in Madras which had a small business and a note issue of a very limited amount.

[3] On 26th January, 1921, the total paid-up capital was R. 3,75 lakhs and the total Reserve and Rest R. 3,45 lakhs.

may be gathered from the following list of the original shareholders of the Bank of Bombay.

IN 1840:

		Shares.[1]
173	Europeans residing in India subscribed to -	3261
12	Native Christians - - - - -	49
3	Mahomedans - - - - - -	55
109	Parsees - - - - - - -	1233
35	Hindus - - - - - - -	327
	Government Shares - - - - -	300
332	Total -	5225

That only 3 Mahomedans and as many as 109 Parsees were among the original shareholders is striking. It will be remembered that the Mahomedans are prohibited by their religion from receiving interest.[2]

Bank of Issue. Like the English joint-stock banks before 1844, the Indian Presidency banks were also banks of issue. This right of note issue was taken away from them in 1861, when an Act [3] was passed providing for a Government paper currency.[4] The transfer of the right of note issue from the Government to a new central bank, which was to be established, was one of the important recommendations of the Hilton Young Commission of 1926, which unfortunately has not passed through the legislature.

Bank Forgeries and Fraud. Even the Presidency banks were not immune from forgeries and fraud. Two instances stand out prominently. The first is known as the Rajkishore Dutt's forgeries of 1829, when money was advanced by the Bengal Bank upon forged Company's papers. Mr. Dorin, the Secretary of the bank, did suspect the genuineness of the papers, but when they were sent to the Accountant General's

[1] Cooke, *op. cit.* p. 165. [2] See above, p. 33. [3] Act XIX of 1861.

[4] Actually the banks lost their right of note issue in 1862, but they were permitted to manage the paper currency business as agents of the Government until 1866, when the Government undertook the direct management of the paper currency.

office for verification, they were returned in order. Later when the duplicates turned up, the papers deposited with the bank were discovered to be forgeries. 'So cleverly was the forgery effected, that when Mr. H. T. Princep, the Financial Secretary to Government, whose name appeared in the notes, was examined in court he declared, when the notes were put into his hands, that he could not swear that the signatures were not his own.' [1] The Government refused to make good the bank's loss. The bank thereupon appealed to the Privy Council, but the appeal failed, and the bank had to write off the whole of the profits of the first half of 1834 to profit and loss.[2] Such was the excitement in the money-market that the bank stock fell from R. 6000 to 500. It recovered, however, to its original level the next year.

The second case is that of the extensive forgeries of the notes of the Bank of Bombay, which were detected during the period 1848-51. An idea of their magnitude may be gathered from the fact that 'at least four-fifths of the entire circulation was temporarily reduced.'

Caution the Key-note of the Presidency Banks Act of 1876. The Presidency banks in their early days must have been a source of anxiety to the Government. Besides the bank forgeries to which reference has been made, the Bank of Bombay had become involved in serious trouble as a result of the Bombay speculative crisis of 1862-65. In January 1868, it went into liquidation, but re-started work in the same year. It is therefore not difficult to see why the Presidency Banks Act XI of 1876 was rigid in regulating and restricting the business of these banks. By that Act, the banks were not permitted to deal in foreign exchange business, or raise funds in London, and they were prohibited from making advances for more than six months, or against immovable property, or upon promissory notes with less than two independent names, or against goods unless the goods

[1] Cooke, *op. cit.* p. 103. [2] *Ibid.* p. 104.

or the titles to them were deposited with the bank. The Government balances left with the bank were also limited and the Government opened Reserve Treasuries in the Presidency towns. This system was maintained without material alteration until 1920.

Establishment of Bank Branches. While the Presidency banks were restricted regarding the nature of their business in several respects by the Act of 1876, they were left at liberty to open as many branches within the Presidency limits as they liked without having to obtain any previous sanction of the Government.[1] Viewing the whole history from 1809, when the first Presidency bank received its charter, to 1920, when the Imperial Bank of India Act was passed, the Presidency banks had a life of over a century, but they had only fifty-nine branches to their credit on 27th January, 1921, on which date their individuality was merged into that of the Imperial Bank of India. What the Imperial Bank has accomplished since then is the next question to be considered.

(*B*) *The Imperial Bank of India.*

The Imperial Bank of India Act of 1920 [2] united the three Presidency banks into one, and the Imperial Bank of India, as we have just said, started work on 27th January, 1921. Seven years have elapsed since then and in another three years the Act will be due for revision. The future of the Bank, in the light of the experience gained, is thus a matter which calls for serious consideration and immediate solution. The recommendations of the last Indian Currency Commission in this regard are of a far-reaching character, in their effect both upon the position of the Imperial Bank of India and that of the Indian money-market, in which the indi-

[1] Branches or agencies outside the Presidency could be opened with the previous consent of the Governor-General in Council (Sec. 41 of the Presidency Banks Act XI of 1876).

[2] Act XLVII of 1920.

genous bankers, at present, play a very important rôle. The discussion of this subject must be deferred to the concluding chapter. Here we are concerned with a brief review of the progress made by the Imperial Bank during the last seven years and in the elucidation, so far as possible, of the interconnections between the Imperial Bank, the Indian joint-stock banks and the indigenous bankers.

Kind of Business. The Imperial Bank of India Act of 1920 follows generally the same lines as the Presidency Banks Act of 1876 in regard to the regulation and restriction of the bank business. But of the two Acts the Imperial Bank of India Act is more liberally conceived. To instance one important point, it authorized the opening of a London branch and the borrowing of money in London against the assets of the Bank, although the opening of cash credits, keeping cash accounts or receiving deposits in London is not permitted, unless it is for a former customer of the Imperial Bank of at least three years' standing or for a customer of any of the old Presidency Banks. The Act of 1920 also provided for an agreement between the Bank and the Secretary of State which was signed on 27th January, 1921, and by which certain obligations were imposed and certain privileges conferred upon the Imperial Bank.

Obligations and Privileges. By this agreement the Imperial Bank undertook (1) to conduct all general banking business of the Government of India; (2) to open, within five years of its inauguration, a hundred new branches, the location of twenty-five of which could be determined by the Government of India; and (3) to conduct the management of the public debt for a fixed remuneration.

On the other hand, the bank was permitted to hold all the Treasury balances, wherever the bank had a branch office. It was also given the privilege of transferring its funds through 'currency' free of charge. The Government agreed not to issue any 'Currency Transfers' or 'Supply Bills'

between any two places where a branch of the Imperial Bank might be located. The bank, in return, undertook to offer every facility to the public for the transfer of funds from one branch office to another, at rates not higher than those to which the Controller of the Currency should signify his approval.

Implications and Limitations. We must now address ourselves to three important questions. Firstly, what is the constitutional position of the Imperial Bank of India among the central banks of the world? Secondly, what is the position of the bank, as conceived by the Act of 1920, in the Indian money-market? Thirdly, in what manner and to what extent, if at all, have these conceptions been affected by the actual practice during the last seven years' working of the bank?

Taking the first question first, it may be said at once that the constitution of the Imperial Bank, as embodied in the Act which brought it into being, falls short in several essentials of that of a central bank of either the English or the continental or even the South African type. But the disadvantages from which the Imperial Bank suffers need not be exaggerated. In the first place, the Imperial Bank of India Act specifically requires the bank to act as Government bankers, a function admittedly appropriate to a central bank. Secondly, and this may be emphasised, there is nothing in the Act to prevent the bank from pursuing a policy which may enable it to come to occupy the position of a bankers' bank, which again is a function appertaining to a central bank. Of course the Act of 1920 permits the bank to conduct general banking business, with the consequent possibility of coming into competition with other banks and thereby prejudicing its capacity to play the rôle of a bankers' bank. This, however, is an objection which finds favour only with the advocates of English and American central banking policy. On the Continent, commercial banking is not

incompatible with central banking business. The answer to the question as to which of the two systems is more suited to Indian conditions, whatever it is, does not affect the possibility of the Imperial Bank coming to act as a bankers' bank. Where, however, the Imperial Bank of India Act of 1920 does fall below the ideal of central banking legislation is the withholding from it of the powers of note issue and thereby the capacity to unify and control the currency and credit policy of the country. Of this more elsewhere.[1]

Now as to the other questions regarding the position of the Imperial Bank in the Indian money-market and its actual working. The goal set up for the bank to aim at was the development of the banking habits of the people. In the first place, the bank was to be the custodian of the national balances and the manager of the public debt. In the second place, it was to extend banking facilities within the country, by opening new branches. In the third place, with its large resources, both public and private, it was to facilitate the internal movements of funds and ease the seasonal stringency in the money-market. Of these three functions, the first need not detain us; we are here concerned mainly with the second and the third.

Establishment of Branches. As regards the opening of a hundred new branches, the bank duly fulfilled its obligation by 31st March, 1926. In 1926-27 the position was as shown in the table on the next page.[2]

It is striking to note that no new branches have been opened since March, 1926. This is explained by the declared policy of the bank that they wish to consolidate their existing establishments before embarking upon new ventures.

The question naturally arises as to how many of these branches have by their new business proved to be a successful

[1] See below, pp. 231 *et seq.*

[2] *Report of the Controller of the Currency for* 1926-27, p. 20.

Provinces.	No. of Branches in existence before January, 1921.	Since January, 1921.	Total.
Bengal - - -	6	9	15
Behar and Orissa -	1	8	9
Assam - - -	—	2	2
United Provinces -	5	18	23
Punjab - - -	2	17	19
North Western Frontier Province -	—	3	3
Burma - - -	3	3	6
Bombay - - -	14	9	23
Madras - - -	18	15	33
Central Provinces -	3	7	10
Minor Provinces -	1	2	3
Indian States - -	5	8	13
Ceylon - - -	1	—	1
	59	101	160

proposition. The answer is furnished by the following table: [1]

NEW BRANCHES.

Number of New Branches working at a *Profit* (inclusive of interest received from or paid to Head Office Account) - - - - - - - - -	32
Number of New Branches working at a *Loss* (inclusive of interest received from or paid to Head Office Account) - - - - - - - -	56

The position is, however, perhaps not so bad as it might appear at first sight from these figures. It must be remembered that they relate to the end of 1925, when some of the new branches were hardly a year old and unlikely therefore to show any results. More recent statistics are

[1] *Royal Commission on Indian Currency and Finance, Minutes of Evidence*, 1926, vol. iv. p. 479.

not available, but it is not unlikely that some of the fifty-six branches which were unsuccessful in 1925 are now, in 1928, working at a profit. Be that as it may, the new branches had succeeded in attracting over R. 8 crores of deposits by the end of 1925, as is shown by the following table :

	Crores of Rupees.
Cash Balance of Current Accounts of all new branches	3·10
Saving Banks Balance - - - - - - -	1·68
Fixed Deposits - - - - - - - - -	3·57
Total -	8·35 [1]

Inland Remittances. Coming to the facilities afforded by the Imperial Bank for inland remittances, it will be recalled that the Act of 1920 provided that all Treasury balances were to be placed in the hands of the Imperial Bank wherever the latter had a branch office. This meant, in the first place, the abolition of the Reserve Treasuries and, in the second place, the release of large Government funds to be used by the bank for assisting the money-market. As the bank offers transfer facilities at fairly low rates previously approved by the Controller of the Currency,[2] it does not itself derive much profit from this kind of business, but it is a valuable concession to the constituents. That inland transfers, through the agency of the Imperial Bank, have grown considerably in volume, in spite of recent diminutions as a consequence of a fall in the price-level, may be seen from the statistics given on p. 171.

Bankers' Bank. Now we come to the consideration of the inter-connection between the Imperial Bank and the Indian

[1] Figures given by Mr. Norman Murray, Managing Governor of the Imperial Bank in his evidence before the Royal Currency Commission of 1926. See *Minutes of Evidence of the Commission*, vol. iv. p. 472.

[2] For amounts of R. 10,000 and over - - - 1 anna per cent.
" " R. 1,000 but less than R. 10,000 2 annas per cent.
" " less than R. 1,000 - - - - At the discretion of the bank.

(In 1923-24 the 1 anna rate was reduced to ½ anna per cent. for banks in order to assist them.) *Report of the Controller of the Currency for* 1920-21, p. 32.

REMITTANCE THROUGH THE IMPERIAL BANK.[1]

(In Lakhs of Rupees.)

	1921.	1922.		1923.		1924.		1925.		1926.	
Circle.	II	I	II	I	II	I	II	I	II	I	II
Demand Drafts Purchased.											
Bengal - -	17,36	9,65	18,98	16,13	27,07	23,66	33,54	29,93	38,70	23,57	28,95
Bombay - -	9,72	9,50	11,00	18,92	18,91	28,66	17,84	34,54	20,55	27,38	15,98
Madras - -	10,95	13,29	11,75	16,30	10,50	18,30	12,55	19,59	13,71	15,37	12,29
Total -	38,03	32,44	41,73	51,35	56,48	70,62	63,93	84,06	72,96	66,32	57,22
Drafts and Telegraphic Transfers Paid.											
Bengal - -	17,42	22,64	24,54	22,34	22,80	26,99	34,31	38,57	45,53	50,71	41,48
Bombay - -	17,15	21,80	20,02	26,38	25,03	30,94	27,10	35,74	30,93	29,85	27,31
Madras - -	8,82	10,16	7,47	9,39	9,30	12,43	9,96	11,62	11,55	11,80	10,33
Total -	43,39	54,60	52,03	58,11	57,13	70,36	71,37	85,93	88,01	92,36	79,12

I stands for the first half and II for second half-year.

[1] (*Report of the Controller of the Currency for* 1926-27, p. 19.)

joint-stock banks. Complaint is sometimes made [1] that the Imperial Bank has come into competition with the Indian joint-stock banks, with the result that money rates have tended to be reduced, to the disadvantage of the latter. This question of competition need not be exaggerated. It is sometimes forgotten that in at least seventy-five places there is no bank except a branch of the Imperial Bank. The question of competition therefore only arises in about a hundred places, where there are joint-stock banks as well as branches of the Imperial Bank. And if the Imperial Bank has large Government balances for use free of interest which give it an advantageous position over other banks, it must not be lost sight of that it is also subject to certain severe restrictions, such as the prohibition of dealing in the profitable business of foreign exchanges—from which the latter are free.

On the whole the relations of the Imperial Bank with the joint-stock banks appear to be cordial. Most of the Indian joint-stock banks keep accounts with the Imperial Bank. In the following months the bankers' borrowings from the Imperial Bank exceeded their balances with it.[2]

Month.	Balances.	Borrowing.
	Crores of Rupees.	*Crores of Rupees.*
February, 1924 -	4¼—7¼	8—9½
March, ,, -	3¼—6	9¼—9¾
April, ,, -	4—6¾	7¾—9½
May, ,, -	4¼—6	6¾—8
June, ,, -	4¼—7	4¼—7¼
July ,, -	4¾—7¼	3—5¼
February, 1925 -	4½—7¾	3½—5
March, ,, -	5½—8	4¾—6
April, ,, -	4¾—7	4¾—5¼
May, ,, -	4—5¾	3½—5¼

[1] See below, p. 177.

[2] *Royal Currency Commission*, 1926, Minutes of Evidence, vol. iv. p. 479.

The above figures relate to Indian as well as other banks. The following figures[1] show their relative position as it was on 27th March, 1925.

	Indian Banks.	Other Banks.
Deposits - -	Rs. 185 lakhs.	Rs. 576 lakhs.
Advances - -	Rs. 306 ,,	Rs. 223 ,,

Clearing Houses. The Imperial Bank also conducts the Clearing Houses business in India at eleven centres, viz., Ahmadabad, Bombay, Calcutta, Cawnpore, Colombo, Delhi, Karachi, Lahore, Madras, Rangoon and Simla. The actual business of the clearing house is carried on in the offices of the Imperial Bank at these centres and representatives of other banks meet under the supervision of an officer of the Imperial Bank, which provides the necessary staff. A bank can become a member of the clearing house by the consent of the existing members. The Imperial Bank has no more voice in the matter than any other member of the clearing house.

Joint-stock Banking in India and the United Kingdom. This review of the development of joint-stock banking may be concluded by a statistical comparison of the position of the Indian joint-stock banks, in respect of their resources, with that of the joint-stock banks in the United Kingdom of Great Britain and Ireland. With this object in view the diagrams on p. 174 have been constructed.

3. RELATION OF INDIGENOUS TO JOINT-STOCK BANKING.

Having briefly reviewed the evolution of joint-stock banks and the beginning of central banking in India, we must now turn our attention to a consideration of the relative position of the indigenous bankers and the modern banking institutions and of the connection which exists between them.

Taking their relative position first, it is difficult to state it with any precision, since the annual tables relating to banks

[1] *Royal Currency Commission*, 1926, Minutes of Evidence, vol. ii. p. 360.

JOINT-STOCK BANKING IN GREAT BRITAIN AND IRELAND AND IN INDIA, 1925-26.

(In Millions of £s.)

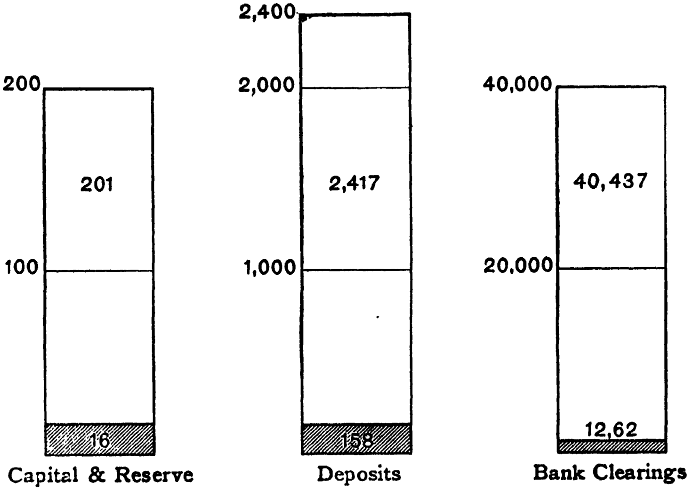


DIAGRAM IV.

N.B.—1. The entire blocks represent Great Britain and Ireland.
2. The shaded portions represent India. (Imperial Bank of India and Indian Joint-Stock Banks. The Deposits include those of the Exchange Banks doing business in India.)
3. Actual figures are given inside the blocks and shaded portions.
4. Indian figures are converted into Pounds at 1s. 6d. rate.

published by the Government of India give no statistics about the indigenous bankers. Some idea of the state of affairs, however, may be had from such analysis and figures as have been worked out in this monograph.

We have seen [1] that the financing of agriculture, which is the primary industry of the country, is almost entirely controlled by the indigenous banking agencies. The same can be said in regard to the Indian cottage industries. How much indigenous banking money is invested in these industries it is impossible to tell, but it has been estimated that

[1] See above, pp. 50 *et seq.*

the total agricultural and non-agricultural indebtedness to money-lenders and bankers may be between £600,000,000 and £650,000,000.[1] Besides, it has been pointed out how the indigenous bankers in several industrial centres contribute to the mill credits.[2]

In the financing of the internal trade of the country, again, the *hundis* discounted or re-discounted with the Imperial Bank even in the busiest season hardly exceed R. 12 crores.[3] The bulk of the work is evidently in the hands of the indigenous bankers outside the sphere of joint-stock banking.

If the above conclusions correspond at all closely with the facts, the part which the Indian joint-stock banks play in the financial life of the country pales into insignificance, when contrasted with that of the indigenous money-lenders and bankers. The present inquiries confirm the view that the masses of the country have almost nothing to do with the Indian joint-stock banks, they only know the village money-lender, whom they call variously *Mahajan, Bania* or *Shah.*[4] Indeed this could also be shown from the fact that no joint-stock bank has yet penetrated into the Indian villages. The co-operative societies, of course, are doing good work, but they lie outside the category of joint-stock banks.[5]

Indigenous Bankers and Indian Joint-stock Banks. The next question is as to how the indigenous bankers are linked to the Indian joint-stock banks. It is known that the joint-stock banks keep an approved list of indigenous bankers with whom they transact business, in the form of granting cash credits or discounting *hundis* or the bills drawn by traders and endorsed by the bankers. Every banker on the list is assigned a certain amount of credit, which is deter-

[1] See above, p. 135. [2] See above, pp. 46 *et seq.*

[3] For detailed figures in different years, see below, p. 180.

[4] The word *Shah* means a chief or leader and is a term in the Punjab for a money-lender. Sometimes it is also used by the money-lenders for their customers.

[5] For the part played by the co-operative societies, see the next chapter.

mined by his financial standing and beyond which, as a rule, the banks will not discount the paper endorsed by him. In practice, this limit is seldom exceeded, because the banker usually prefers to invest his own funds and such deposits as he may attract from his customers in the small traders' *hundis*, rather than endorse the bills and discount them with the joint-stock banks. It is only in the busy season, when the banker's resources fall short of the accommodation desired by the small traders that he seeks the assistance of a joint-stock bank. He takes the *hundis* of his customers, after endorsing them, to the bank which readily discounts them in accordance with the standing of the banker and the stability of the drawer and the drawees. The bank usually refuses to accept too many *hundis* of the same customer, for it naturally prefers not to put all its eggs in one basket.

The *hundis* may be either pure finance bills or trade bills, the latter being against some produce or goods. The banks which discount the *hundis* for an indigenous banker always prefer to have trade bills, since the security is better. In both cases, the direct security is only personal, no documents being received along with a trade bill, but the latter inspires more confidence, because it has behind it actual goods which can be sold and money thereby realised, while the former has no such backing.

Furthermore the joint-stock banks do not take the *hundis* direct from the small traders without the indigenous bankers' endorsement, because in that case the *hundis* would have behind them only the personal security of the traders and it would therefore be taking risks for which the banks are not prepared. With these precautions the Indian joint-stock banks find such business to be quite safe.

Indigenous Bankers and Imperial Bank of India. Coming to the relations of the Imperial Bank of India with the indigenous bankers, they are, in the words of the managing Governors of the Bank, 'confined to granting facilities for

remittance and financing him by discounting or rediscounting his bills and granting him advances in other ways.' [1]

Loans to Indigenous Bankers. The last provision is specially taken advantage of by the *Nattukottai Chettis.* They have a representative of their community in the person of Sir Muthia Ct. Chettiar, son of Chidambaram Chettiar, banker, who was Sheriff of Madras in 1921-22. He acts as a liaison officer between the Imperial Bank's branch of Madras (formerly the Madras Presidency Bank) and the *Chettis.* His business is to arrange loans from the bank and forward the money to Sivaganga, putting an extra ½ per cent. on the interest charged. From Sivaganga the funds are distributed among the *Nattukottai Chettis* who may be said to have the finance of the rice crops of eastern India almost wholly in their hands.

Remittance Facilities to Indigenous Bankers. At the same time, as already pointed out, the bank utilises its large Government resources for the transfer of funds from one office to another to assist its constituents by purchasing their demand *hundis* or issuing and paying demand drafts and telegraphic transfers.[2]

That the Imperial Bank from the very beginning made some efforts to attract domestic bills through brokers, and thereby excited the jealousy of other joint-stock banks, appears from the following letter, dated 15th November, 1924, which was received by the Allahabad Bank, Ltd., from their Madras branch and which was quoted before the Royal Currency Commission of 1926 by Mr. A. Bowie, Director of that Bank, by way of a complaint against the Imperial Bank. 'Money is in full demand. The Imperial Bank of India have already contracted with the big business firms of

[1] Letter from the Managing Governors of the Imperial Bank of India to Government of India, 27th April, 1926 (*Legislative Assembly of India Debates, Report*, 31st January, 1927, vol. i. p. 233).

[2] For the statistics see above, p. 171. No separate statistics relating to indigenous bankers are available.

this place to purchase their demand *hundis* on Bombay and Calcutta to the extent of 23 lakhs for a period of four months, at one anna six pies per cent. through brokers.' [1] This, according to Mr. Bowie, was a rate at which the joint-stock banks could not profitably undertake to do business. Out of the total discount charge of one anna six pies per cent., three pies were for the broker, and a joint-stock bank had to pay $\frac{1}{32}$ per cent. to get their funds back to Hathras. Assuming that it took a week to turn the money round—and it did not take less time—*i.e.* to pay out money for the *hundis* at Hathras, send them on to their destination and collect them and bring the money back, this gave a net return of about three per cent. This figure was not only interest on the funds invested, but had also to cover the bank establishment charges. And it was for a period when money was most in demand, the tight money season of the year—November, December, January, February and March. Mr. Bowie pointed out that the Imperial Bank thus cut down discount rates in a manner hurtful to his bank. Asked as to whether that was a usual state of affairs in places other than Hathras, he replied that in other offices it was a question of direct interest rates. 'Our rate is something like $7\frac{1}{2}$ and the Imperial Bank offers to do the business at the bank rate—5 per cent.' [2]

Discounting of Indigenous Bills. Finally we come to the discounting of indigenous bills or *hundis* by the Imperial Bank of India. In times of financial stringency the indigenous banker approaches the Imperial Bank for re-discounting *hundis* with its branches by endorsing his name on them. Such endorsement by the banker is essential before the *hundis* can be re-discounted because, under the Act, the Imperial Bank of India cannot discount a trade bill unless it is endorsed by two independent persons.

[1] *Royal Currency Commission*, 1926, Minutes of Evidence, vol. v. p. 93.
[2] *Ibid.*

In order to appreciate what the Imperial Bank does in the matter of discounting *hundis*, account must be taken of the emergency currency system, which has a close bearing on the subject. With a view to providing additional currency for purposes of trade in busy seasons, the Government is authorized, under Section 20 of Act X of 1923 (amended in 1924) to advance emergency currency up to 12 crores of rupees to the Imperial Bank of India, provided the bank holds against it self-liquidating *hundis* or trade bills. This is what the Hon. Sir Basil P. Blackett, Finance Member of India, observes in regard to the working of the system, 'In Indian conditions as they are at present it has been found extraordinarily difficult to provide even the maximum of 12 crores of self-liquidating *hundis* required for the working of the emergency currency system. Broadly speaking, they do not exist. The Imperial Bank had, I believe, to put some pressure on their clients to convert cash-credits into *hundis* in order that they might have self-liquidating *hundis* to put up as a cover against what the Imperial Bank was borrowing from the paper currency reserve.' [1]

One obvious reason for the difficulty in utilising the facilities thus provided is the high rate of interest charged in the emergency issue. Originally the rate of interest which the Imperial Bank was to pay to the Government was fixed at 8 per cent. per annum. With the amendment of the Indian Currency Act during 1923-24 the minimum rate was reduced to 6 per cent. The total amount of emergency currency issued to the Bank at any time was to bear interest at the current bank rate subject to a minimum of 6 per cent. for the first four crores, 7 per cent. for the second, and 8 per cent. for the third four crores.

After the experience gained during the spring of 1924, when there was an unusual demand for additional currency, the scale was further revised in the following September, and

[1] *Royal Currency Commission*, 1926, Minutes of Evidence, vol. iv. p. 24.

the rate was fixed at 6 per cent. for the first four crores and 7 per cent. for the next eight.[1]

STATEMENT SHOWING THE LOANS TAKEN BY THE IMPERIAL BANK FROM CURRENCY AGAINST THE SECURITY OF SELF-LIQUIDATING HUNDIS OR INTERNAL TRADE BILLS (UNDER SEC. 20 OF ACT X. OF 1923, AMENDED 1923-24).[2]

Date.	Loans taken (Crores of Rupees).	Bank Rate per cent.
10th March, 1922	2	8
20th April, 1923	2	8
19th December, 1923	4	6
28th December, 1923	4	7
8th February, 1924	1	8
13th February, 1924	1	8
15th February, 1924	2	9
23rd December, 1924	2	6
16th January, 1925	2	6
6th February, 1925	2	7
18th February, 1925	2	7
March, 1927	2	7

In spite of the alterations in the interest rates, the amount of genuine *hundis* which the Imperial Bank gets in the busy season does not usually exceed R. 4 or 5 crores.[3] Hence the bank's policy, to which Sir Basil Blackett alludes, of persuading its customers to convert cash credits into *hundis*. A word of explanation may be offered about this conversion.

[1] For further details on the subject see *Royal Currency Commission*, 1926, Minutes of Evidence, vol. ii. pp. 21 *et seq*.

[2] *Royal Currency Commission*, 1926, Minutes of Evidence, vol. ii. p. 35. No loans were taken in 1926. The figures of 1927 are taken from the *Report of the Controller of the Currency for* 1926-27, p. 17.

[3] The Balance Sheet of the Imperial Bank of India for the week ending 2nd March, 1928, shows that the inland bills discounted and purchased amount to R. 15 crores and the loan from the paper currency reserve against *hundis* to R. 8 crores. It is to be regretted that figures for usance *hundis* discounted are not given separately from the demand *hundis* purchased, and we are left in doubt as to the recent tendency.

It had been an old and popular practice with the Presidency banks, and latterly with the Imperial Bank, to finance industrial concerns by granting cash credits on the security of goods which are either in the process of manufacture or ready for sale. An illustration of this system has already been given in describing the financing of the cotton mills of Indore.[1] The Imperial Bank persuades its customers to draw bills against these goods in the course of manufacture and have them discounted in place of the cash credits ordinarily allowed. Industrial advances thus take the shape of *hundis* instead of *cash credits*. These manufactured bills, in the opinion of Mr. A. C. McWatters, Financial Secretary to the Government of India, 'do not in any way correspond to the self-retiring bills which form the basis of the Federal Reserve note system of America on the analogy of which the provisions in regard to seasonal currency have been introduced in India.'[2] On the other hand, Mr. Norman Murray Joint-Managing Governor of the Imperial Bank, gave the following evidence before the last Royal Commission on Indian Currency. 'I consider that the business which is behind these advances is the business which does create the true seasonal demand and that the advances do gradually liquidate themselves. Take, for instance, jute. The advances are granted in the early part of the year and gradually run off as the stocks are manufactured towards July when they are liquidated.'[3]

The extent of these cash credits or industrial advances will appear from the statistics given on p. 182.

Having seen what the Imperial Bank does in the matter of discounting internal trade bills, the question as to why the business is not larger than it is can only be answered in one way. Trade bills are not available in larger numbers.

[1] See above, pp. 46 *et seq.*

[2] *Royal Currency Commission*, 1926, Minutes of Evidence, vol. ii. p. 21.

[3] *Ibid*, vol. iv. p. 472.

IMPERIAL BANK ADVANCES TO PURELY INDUSTRIAL CONCERNS.[1]

(In Lakhs of Rupees.)

	Indian.	European.	Total.
Bengal - - -	3·74	5·74	9·48
Bombay - - -	8·50	·65	9·15
Madras - - -	·90	1·31	2·21
	13·14	7·70	20·84

The main reasons are twofold. Firstly, the existing methods of internal trade do not give much scope for trade bills to be drawn and sold in villages. Secondly, the people who are in a position to draw them are not trained in their creation and discounting. Suggestions for the development of indigenous bills will be discussed in the last chapter.

Indigenous Bankers and Clearing Houses. No indigenous banking firm, it will be of interest to notice, is a member of the clearing-houses in India, because, according to the Managing Governors of the Imperial Bank, the volume of cheques which passes through the hands of indigenous bankers is not large enough to qualify them for admission. It is rarely that cheques are drawn upon them and they do not, as a rule, keep large cash balances to satisfy promptly the demands that may be made. The managing Governors observe that " such parties may desire to belong to the Clearing House to enjoy the prestige such membership confers, but we would mention that there are many banks of the highest standing in London who are not members of the Clearing House.' [2]

Cheques of Indigenous Bankers Up-country. From the

[1] *Royal Currency Commission*, 1926, Minutes of Evidence, vol. iv. p. 478.

[2] *Legislative Assembly of India Debates*, 31st January, 1927, vol. i. p. 233.

same correspondence it appears that the number of cheques drawn on private banking firms up-country is very small. Such cheques when drawn on any centre are usually collected by a branch of the Imperial Bank or a joint-stock bank, if such an institution exists at that place, or else they are paid by the drawees either by cheques on a clearing bank or by cash.

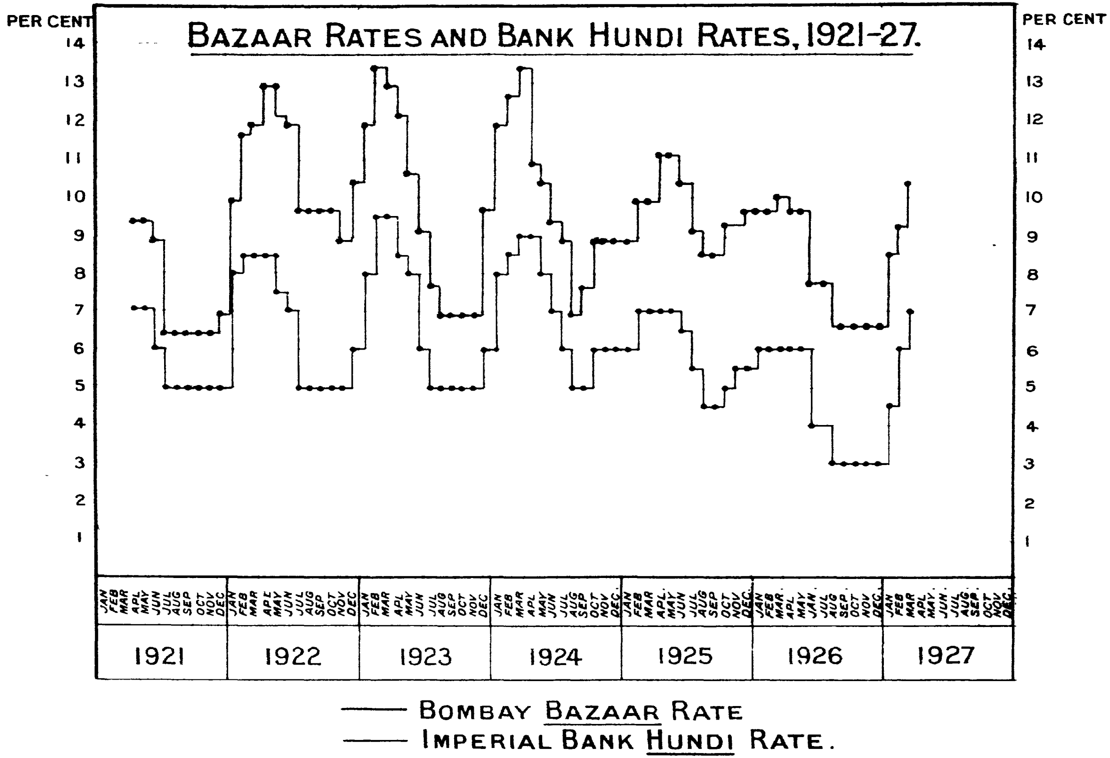
Degree of Contact between Indigenous and Joint-stock Banking. Having described the manner in which indigenous banking is connected with joint-stock banking, we must now consider how in recent years the rates ruling in the one have agreed with those in the other. For this purpose it is best to take the Bombay *bazaar* rate [1] and the Imperial Bank *hundi* rate from 1921 onwards. The diagram facing p. 184 illustrates the movements.

The first thing that meets the eye is the remarkable similarity in the general appearance of both the curves—the one representing the Bombay *bazaar* rate and the other the Imperial Bank *Hundi* rate. But the fluctuations in the *bazaar* rate seem to be more frequent and greater in magnitude than is the case with the bank *hundi* rate, showing how sensitive the *bazaar* is to the seasonal variations in demand for funds. But since 1925 there is a perceptible reduction in both the magnitude and frequency of fluctuations in the *bazaar* rate which indicates easier conditions in the *bazaar*. Whether and in what degree this is due to a fall in the Indian export trade or to an increasing accommodation to the *bazaar* by the Imperial Bank, or to the possible flow of foreign capital, it is difficult to determine. But there is another point in the diagram that calls for notice in this connection.

The position of the curve representing the *bazaar* rate is at every point above that representing the bank *hundi* rate.

[1] The Calcutta *bazaar* rate follows generally the same trend as the Bombay *bazaar* rate. See above, p. 98.

That the *bazaar* rate should be higher than the bank *hundi* rate by 1 or 2 per cent. is only to be expected, but for the former to be 9¾ and 13½ per cent. when the latter was 5 and 9½ per cent. respectively, in 1922 and 1923, is significant. The difference between the two rates of about 5 per cent. may be seen to be the case in almost each year, but, if we examine the curve with care two new tendencies since 1925 can be observed. In the first place, the maximum height of both rates appears to be falling, which again is an indication of increasing ease in the money-market. In the second place—a fact which appears much less clearly but is much more important—the two curves show a very slight tendency during 1926-27 to approach each other more closely. If this approximation is not accidental, it may be said to herald real and close agreement between the two rates in the future. At present, however, we cannot speak in this matter with the voice of certainty. Caution is all the more necessary because the diagram, if closely studied, reveals the fact that the fluctuations in the *bazaar* rate either coincide with or are followed—not preceded—by similar fluctuations in the bank *hundi* rate. As things are, the *bazaar* rate is an index of conditions in the indigenous money-market and a signal of the direction in which the bank *hundi* rate is going to move.



BAZAAR RATES AND BANK HUNDI RATES, 1921-27.
PER CENT
14
13
12
11
10
9
8
7
6
5
4
3
2
1
JAN FEB MAR APL MAY JUN JUL AUG SEP OCT NOV DEC
1921
1922
1923
1924
1925
1926
1927
BOMBAY BAZAAR RATE
IMPERIAL BANK HUNDI RATE.

CHAPTER VII

DEFECTS OF INDIGENOUS BANKING

1. MAIN DEFECTS.

Money-lending and its Evils. Having examined its working, we may now sum up the main defects of indigenous banking. The first thing which is brought out by the foregoing analysis is that the present system of indigenous banking hardly constitutes ' banking ' as it is understood in the modern monetary world. Indigenous banking in India has comparatively little of deposit and discount business, or dealing in other people's money, which is the unfailing characteristic of modern ' banking.' On the other hand, indigenous banking is largely the lending out of one's own money. In other words, it is mostly ' money-lending.'

This money-lending business itself has several unfortunate concomitants, such as usurious rates of interest, compound interest piling up to any extent, dishonest dealings on the part of money-lenders, uneconomic methods of borrowing for unproductive uses—all contributing to the misery and helplessness of the debtors, on the one hand, and resulting in the abuse and calumny of the creditors, on the other hand.

Lack of Deposit Banking. The evils of money-lending are largely due to the fact that the system of indigenous banking does not attract deposits to any considerable extent. This lack of deposit banking, in India, has had serious results in another direction. The national savings of the country, in place of being conserved together as bank deposits and made available for developing the natural resources of the country,

lie useless as hoards buried underground, or in the shape of ornaments or jewellery.

Absence of Discount Market. Another unfortunate feature of indigenous banking is that relating to the absence of a discount market. We have seen how the discounting of *hundis* plays only a small part, as compared with the use of cash in financing the trade and industry of the country. The transfer and re-transfer of large amounts of currency from one centre to another is an antiquated method of finance which involves much expense and trouble. But it has a more serious aspect. The small use which is made of *hundis* or internal bills of exchange means the absence of a most effective means of connecting the indigenous to the joint-stock banking.

Lack of Organization and Effective Leadership. This brings us to the second main defect of the indigenous banking system which is that it neither controls nor is controlled by the joint-stock banking system in the country. There is no regular liaison between the two systems and therefore no effective leadership in the Indian money-market. The indigenous bankers work practically as individual units, there is no team work under one central authority. In busy seasons, no doubt, the indigenous bankers take advantage of the accommodation which the joint-stock banks are prepared to grant, but for the most part the *bazaar* rates are not determined by the bank *hundi* rates. So that there exist side by side practically two money-markets with two sets of rates, where there might well be only one. This is perhaps the weakest feature of the Indian money-market, and one which must be remedied in any sound banking system which may be evolved.

One serious result of the lack of a unified credit system is that relating to the bank reserves of the country. At present, these reserves, such as they are, are widely scattered among a large number of small credit institutions, such as

the indigenous bankers and a small number of joint-stock banks. It is not necessary for the indigenous bankers to keep much reserve, because their deposit business, and the consequent liability to meet the claims of their clients is not large. But as in the slack season they prefer keeping funds idle to depositing them with joint-stock banks, and in the busy season are forced to borrow from the latter, the result is that they have unduly large reserves at one time and almost none at another. The joint-stock banks, on the other hand, have to maintain their reserves at a high level, because owing to the absence of a Central Bank reserve in times of danger they have to rely on their own reserves. Thus in both cases the bank reserves tend to be unduly large and some funds are kept idle which could otherwise be profitably employed.

At the same time, as these reserves are widely scattered over the country and there is no effective correlation, it is not easy to move them from a centre where they are in excess to a centre where they are in demand. In other words, the bank reserves are scattered and immobile.

2. ATTEMPTS AT REFORM.

(*A*) *Legislative.*

The defects having been stated, two questions must now be answered. What has been done already by way of reform and what remains to be done? Let us review the existing remedial measures and the principles underlying them and let us in each case examine the success or failure of such measures with a view to investigating the possibilities of improvement in the same or in new directions.

One of the methods adopted for the improvement of indigenous banking is that of State legislation. At present, several Acts are on the Statute Book designed to fight the evils of the system.

The Deccan Agriculturists' Relief Act XVII of 1879. The

first important legislative attempt designed to lighten the agriculturists' burden is the *Deccan Agriculturists' Relief Act of* 1879. By that Act the courts are empowered to go into the history of a credit transaction, to set aside such agreements as appear to them to be unjust and to grant such relief to the borrowers by way of reducing the rates of interest, or of allowing the repayment of debt by instalments, as the courts may deem fit. Facilities are also given to the debtors for taking advantage of insolvency proceedings. The Act is not applicable outside the Bombay Presidency, although the suggestion is often made that it might be extended to other parts of India.

In practice this Act suffers from two drawbacks. Firstly, it is liable to be evaded by the creditors. Secondly, it places a temptation in the way of borrowers to evade repayment of debt by seeking refuge under insolvency proceedings.

Loans Acts. The next step taken by the Government of the country was to devise plans to give financial aid to agriculturists for the purpose of improving the productivity of their land by such means as irrigation projects, or for the purchasing of seeds and implements. With this end in view two Acts called the *Land Improvement Loans Act XIX of* 1883 and *Agricultural Loans Act XII of* 1884 were passed.

State loans, called *Taccavi*, at from 3 to 6¼ per cent. of interest, usually 6¼ per cent., have ever since been granted from time to time in various provinces. They have often been a great relief to the poverty-stricken agriculturists. They are most beneficial in times of famine. Their amounts must, however, necessarily be limited. They cannot be expected to be adequate, nor can they, even to any appreciable extent, be expected to meet the large agricultural capital needs of the country.

Apart from the question of amount, the system of State loans is open to two serious objections. Firstly, from the standpoint of administration it is inelastic and difficult to

supervise. No executive authority in a district, howsoever able, can discharge satisfactorily the duties—which properly belong to specialised credit institutions—of financing the agricultural improvements of the area under its jurisdiction. In India complaints are heard of misappropriation by the petty officials through whom advances are made both at the time of giving the loans and when recoveries are made. Secondly, the system of State aid to a cultivator or to a group of cultivators comes as a windfall and discourages thrift and mutual self-help, without which no improvement over the existing conditions is possible.

'Taccavi' best administered through Co-operation Agencies. The system of *Taccavi*, therefore, does more harm than good, in cases where borrowers are driven to seek help from the money-lenders, owing to the occasional abuses in the distribution or collection of the loans, or to the rigidity in their recovery. State aid in the forms of loans can, however, be more beneficial if given through the agency of the co-operative banks in place of the Government district officers. This is now being done in several provinces.

Land Alienation Acts. Then we find a series of Acts passed by the Government with a view to preventing the transfer of land from the agriculturists to the money-lenders —a feature which, as already noticed, is an undesirable but inevitable consequence of usurious rates of interest and other evils of that kind.

Punjab Land Alienation Act, 1900. The first of these land alienation Acts passed by the Government of India in 1900 was applied to the Punjab and was amended by the Punjab Legislative Council in 1907.

Bombay, 1901. Similarly the Land Alienations Act for restricting the transfer of land was passed by the Bombay Council in 1901.

Bundelkhand, 1903. A similar Act was passed for Bundelkhand, *i.e.* the Jhansi division and parts of Allahabad,

Etawah and Mirzapur districts in United Provinces, in 1903.

Agricultural Castes. For the working of these Acts, the Government has declared certain communities to be castes engaged in agriculture and land can be transferred freely only among the members of such castes.

Two divergent opinions are held on the utility of these *Land Alienation Acts.* But there is no difference of opinion in certain matters which have led to the passing of the Acts. All are agreed on the question that in rural India the money-lender is in such a powerful position that he can almost dictate and get his own terms. No one doubts the fact that the agriculturist is helpless and is often obliged to part with his last resource, *i.e.* his plot of land, in order to secure a fresh loan or to redeem an old one. That land has been passing from the hands of agriculturists to money-lenders is not disputed.

It was with a view to prevent such a transfer and to protect the cultivator from ruin that these Acts were passed. But is the cultivator protected ? The question has given rise to a controversy and is answered in two different ways. Here again we are confronted with the paucity of statistics and are therefore unable to arrive at a precise conclusion based on data which cannot be questioned. With a view to examining the desirability of enacting similar legislation in other parts of the United Provinces than Bundelkhand, where the Act has been in operation ever since 1903, the Government of that province had in 1911 collected some statistics which at that time 'seemed to show that there was not a sufficient case for taking legislative action.' [1] At the present time the Royal Agricultural Commission is going into the whole question.

Judged, however, from the standpoint of purely economic

[1] Hon. Sir Samuel O'Donnell's speech. *United Provinces Legislative Council Debates,* Official Report, vol. xxix. p. 78 (7th April, 1926).

laws, the answer seems to be obvious. If the cultivator or agriculturist has still to contract loans; if he must still sell his plot of land to get or redeem the loans, and there is nothing in the Act to alter these conditions in favour of the cultivator, and, on the other hand, if, by the Act, the freedom of sale of the land is restricted to certain classes which are declared agricultural, the question admits of only one answer. The causes for securing loans being still in operation, the necessity of selling land being still there, and the number of likely purchasers being reduced, the cultivator gets for his land a lower price than he would otherwise have done, and the burden of debt, so far from being reduced, is thereby increased.

The Land Alienation Acts have saved the cultivator from the old non-agriculturist money-lenders, but, at the same time they have acted as double-edged weapons and have resulted in the setting up of usurious money-lenders among well-to-do *zamindars*. The creation of a new agriculturist caste like the existing old castes is far from conducive to the economic interests of the country. It is arbitrary and artificial; it runs counter to the economic freedom of the people.

Usurious Loans Act of 1918. We now come to a measure directed against the well-known and pernicious evil of usurious rates of interest. Now what the State *can* do is to enact that loans above a certain rate of interest shall be prohibited and punished as a matter of law, but what it *cannot* do is to prevent people from paying and receiving such rates as a matter of fact. *The Usurious Loans Act* was passed in India in 1918 [1] and it is on the Statute Book to this day. Loans on usurious rates of interest have gone on, however, in spite of that Act. Sometimes such Acts have caused even greater harm than good. What happened in

[1] The Act was slightly amended in 1926 so as to enable the debtors to initiate litigation and to apply to loans for 12 years in place of 6. *Council of State Debates*, Official Report, vol. viii. pp. 138-9 (28th August, 1926).

England in the early nineteenth century has been taking place in India in the present century. 'A man in distress pays more interest owing to the usury laws than he would do, if no such law existed, because now he is obliged to go to some of the disreputable money-lenders to borrow, as he knows the respectable money-lender will not break the laws of his country. The disreputable money-lender knows that he has the ordinary risk of his debtor to incur in lending his money, and he has further to encounter the penalty of the law, for both of which risks the borrower must pay.'[1] In order to evade the law the money-lenders sometimes get new bonds executed, just before the time of the suit, for an amount which appears as principal, but is really made up of principal plus usurious interest. The enactment of legislation against usury may exercise a restraining influence and be beneficial within limits, but it cannot eradicate the evils.

The Punjab Regulation of Accounts Bill, 1926. The last of the series of legislative measures undertaken with a view to eradicating the evils of indigenous banking deals with dishonest transactions on the part of private bankers. The question has a history extending over several years. On the 5th March, 1923, Mian Ahmad Yar Khan asked the following question in the Punjab Legislative Council: "Will the Government be pleased to devise suitable preventive measures to the effect that no transaction by which a money-lender takes advantage of a *zamindar's* illiteracy, by writing in his *hundi*[2] a higher sum than the sum actually lent, or writing less receipts than actually received or charging higher rates on the lent articles and lower rates on received articles than the existing market value, shall be valid unless made before a responsible person or body (*i.e. ziladar, lambardar* or village *panchayat*) ? The Hon'ble Sardar Bahadur Sirdar Sunder

[1] Extract from the *Report of the Committee on the Usury Laws* laid before the House of Commons in 1818.

[2] A term used in the Punjab for a promissory note.

Singh replied, 'Government do not contemplate the introduction of legislation on the lines indicated.' [1]

In the same council, on the 18th November, 1924, Mir Maqbool Mahmood moved a Bill called the *Money-lenders' Registration Bill* which was circulated to elicit public opinion.[2] The object of the Bill was to secure the registration of money-lenders' names and to compel them to maintain regular books of account by penalising their failure to do so. The Hon'ble Sir John Maynard on behalf of the Government pointed out that the rural borrowers needed every year for agriculture 10 to 12 crores of rupees of which only one-tenth was supplied by credit societies.[3] Therefore the money-lenders who supplied about 10 crores were indispensable to rural economy. It was true that the accounts kept by them were irregular and unsatisfactory, but the proposed Act would have two consequences, in the first place the law would be evaded and, secondly, amateur money-lenders or *zamindars* would be driven out of business—both of which results were undesirable. The bill was ultimately dropped, but not the idea that legislation is an effective means of stopping such malpractices.

In the following year the same honourable member introduced, in the same council, another bill entitled the *Punjab Money Lenders Bill*, which required every money-lender in the Punjab to keep regular accounts in the prescribed form and to supply the borrower with an itemised memorandum of each of the transactions, and also a six-monthly account. The bill was referred to a Select Committee, and on its emergence from it gave rise to a long and heated discussion

[1] *The Punjab Legislative Council Debates*, Official Report, vol. iv. p. 951 (5th March, 1923).

[2] *Ibid.* vol. vii. p. 507 (18th November, 1924).

[3] *Ibid.* vol. viii. p. 1769 (12th December, 1925). The figures relate to the Punjab.

in the provincial council.[1] The supporters of the bill claimed that several important benefits would accrue from its enactment. The proposed piece of legislation, according to them; though not intended to abolish money-lending, would restrict it to better hands and to regular methods. The bill did not ask the lenders to stop their business, but what it did ask them to do was to keep proper and regular entries of the transactions in their account books, and to supply certain information in regard to them to the borrowers. This, in the opinion of the mover of the bill, involved no hardship to the lender but gave effective protection to the borrowers in three ways. First, in regard to the Usurious Loans Act; the object of that Act was to empower courts to re-open certain loan transactions between borrowers and lenders, and to grant to the former relief from excessive interest. But we have seen how the Act was evaded by some money-lenders who, before going to the court, got new bonds executed without any reference to old documents, describing the whole amount as principal. The court found itself unable to help the borrower, because he had nothing to show that the new amount was really made up of a small sum as principal plus piled-up interest If the proposed bill became law, it would make the Usurious Loans Act operative to the benefit of the debtor, by requiring the creditor to keep regular accounts, and to submit six-monthly statements thereof to his customer. In the second place, the receipt of such periodical accounts would serve to remind the borrower of his pecuniary position, and would act as a spur urging him to make efforts to better it. The third and most important way in which it was claimed that the bill would protect the borrower, was that its effect would be to check dishonest money-lenders in their improper practices.

The opponents of the bill, on the other hand, held that

[1] *The Punjab Legislative Council Debates*, Official Report, 1926, vol. ix. pp. 1178-92, 1212-97, 1314-61, 1363, 1417, 1419, 1547.

the bill was unnecessary and uncalled for and they denied categorically the merits which were claimed for it. Their position was similar to that taken up by Sir John Maynard in regard to the Money Lenders' Registration Bill of 1924. They felt that the bill placed such undue restrictions on the working of indigenous money-lenders and that the penalty for failure to keep or produce accounts was so high that it would drive the honest people out of business. As for the dishonest people, against whom the measure was directed, they would still be able to evade the law and could, if they so willed, continue their fraudulent practices. An additional argument used against the bill was the illiteracy of some money-lenders and their inability to keep accounts. If the proposed bill came into operation, such illiterate money-lenders would have to give up their business.

For days together the legislature of the Punjab discussed this thorny problem, and at every step there was strong opposition to the measure. Ultimately the bill was carried by a majority of votes under the new title of the 'Punjab Regulation of Accounts Bill of 1926,' but it was disallowed by the Governor.[1]

The acceptance or rejection of such a measure is of more than provincial interest and importance, because the evil which it seeks to remedy, *i.e.* dishonest dealings on the part of money-lenders is prevalent all over the country. The probable effects of such legislation therefore deserve careful consideration to enable us to see whether or not the action taken in the Punjab is a wise one, with a view to determining a sound policy for other parts of the country. In this connection we must address ourselves to three relevant questions. How will such a measure, if adoped, operate upon the honest money-lenders? How will it act upon the dis-

[1] From a statement made by Sir G. de Montmorency, Finance Member of the Punjab, on 23rd November, 1927, it appears that the draft of a new Money-lenders' Bill is being prepared by the Government (*The Punjab Legislative Council Debates*, vol. x. p. 1270).

honest money-lenders? What will be the net value of its operation?

Taking the first question first, we may divide the honest money-lenders into three classes, firstly those who keep accounts, secondly those who do not keep accounts but know how to do so, and thirdly those who do not know how to keep accounts. Now obviously an Act which requires money-lenders to keep regular accounts in a prescribed manner will mean a death-knell to the last class which, owing to its illiteracy, is unable to keep any accounts. Among this unfortunate class are many Indian widows for whom the business of pawning is often their only means of livelihood. The remedy for this lies in the better education of women. As regards the first two classes, viz., those who keep accounts and those who do not keep accounts but know how to do so, the operation of the measure cannot be said to cause any real hardship, but some money-lenders may find it difficult to keep accounts in a different manner from what they have been used to, or to keep accounts of transactions which they never did before. It therefore appears that such a measure in its operation may be seen to have the effect of driving some honest money-lenders out of business. But this does not very much matter, if at the same time the legislation under examination has also the effect of counteracting dishonesty and irregularity in accounts and thereby of saving a large number of helpless borrowers from fraud and consequential ruin and misery.

This brings us to the second question. How will such a measure operate upon dishonest money-lenders? The Punjab Bill makes the omission to keep regular accounts or to submit six-monthly statements of accounts to borrowers, or to give copies of them on demand, severely punishable. But if a borrower who is in serious need of a loan, say of R. 100 for his daughter's wedding, goes to a money-lender, what is there to prevent the latter from granting the accom-

modation only on the condition that the former agrees to be debited for twice the sum of the loan actually taken, *i.e.* for R. 200 in place of R. 100? The borrower, having no security to offer, and being in pressing need of an unproductive loan may be driven to accepting such terms. The borrower may still be as badly off after the enactment of the Bill as before it. But there will be one difference. While in the absence of such a measure on the Statute Book, his debt might have gone on without his knowledge, now he will know the sacrifice he may be called upon to make in contracting a particular loan. Important as this difference is, it loses much of its force in the case of a borrower steeped in ignorance and uneconomic custom and habits. Thus the legal enactment conceived with the best of intentions may succeed in enforcing the regulation and maintenance of accounts, while failing to purge the system from the possibility of fraud.

We now come to the third and last question. What will be the net value of the operation of such a measure as the Punjab Regulation of Accounts Bill, should it come into force? We have seen that in actual practice it will tend to drive some honest money-lenders out of business. We have also seen that though it may make for regular accounts and their submission to the borrowers every six months or whenever demanded by clients willing to pay the postal charges, the proposed legislation cannot prevent dishonest dealings on the part of some money-lenders. Thus the Bill, if enacted under Indian conditions of widespread illiteracy and ignorance, seems to be of doubtful value.

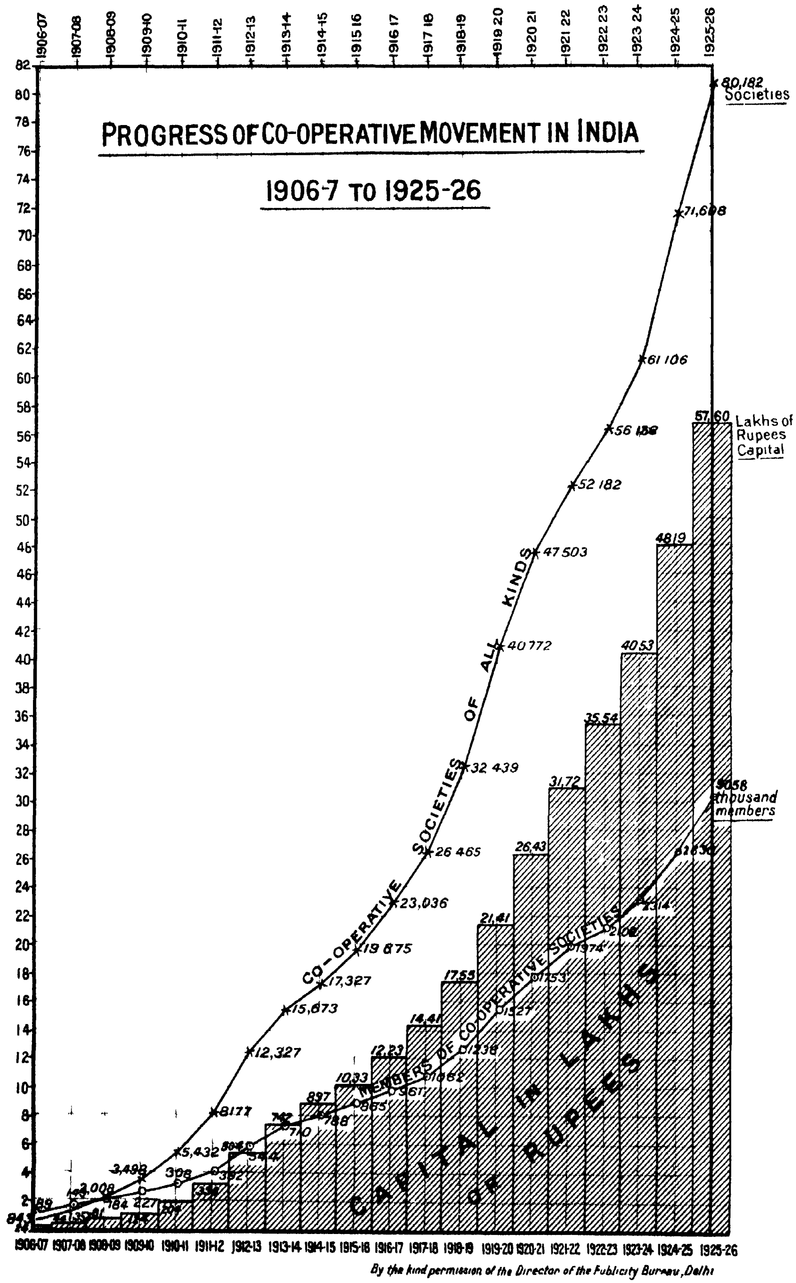
The foregoing discussion of the various legislative proposals for abolishing the evils of indigenous banking will show that legislation is not, as is sometimes wrongly supposed, an effective remedy for all kinds of evils connected with banking. Banks or bankers cannot be made by a mere Act of Parliament. We have noticed the limitations of Government legislation as a method of dealing with the problems of indi-

genous banking in India. But one might ask the reason of these limitations. The answer is simple; it is because such legislation often does not go to the root of the problem. What is the root of the problem in the case of indigenous banking in India? It may be stated in the form of a vicious circle. Ignorance and uneconomic habits of the people lead them to have recourse to loans for unproductive purposes, the unproductiveness of such loans results in usurious rates of interest, these are the cause of poverty and continuous indebtedness on the part of the borrowers, whose standard of living is thereby lowered, and this in its turn results in the continuance of their original state of ignorance and uneconomic habits; and so the circle is completed, and one evil necessarily involves the others. What is needed, therefore, is a higher standard of living and it is in the attainment of this higher standard that an effective solution of the evils of money-lending must be sought.

2. ATTEMPTS AT REFORM.

(*B*) *Co-operative.*

The preceding discussion leads to the second remedy applied to cure the evils connected with the indigenous banking system of India; this remedy is based on the principle of co-operation. The essence of the co-operative movement is the organization of the members into one fraternity by ties of common weal and interest, with a view to promoting thrift and self-help among themselves and to enable them to pool their credit and to minister to the financial needs of one another. The members are their own borrowers and lenders. We have seen how Germany, France and Italy, until the latter half of the nineteenth century, were face to face with the identical problems which are oppressing India to-day. The co-operative credit societies in those countries not only freed the peasant from the clutches of the money-lender, but organised rural credit



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on a sound basis. The same movement was introduced in India in 1904, when the first co-operative credit societies Act was passed. The movement in India is thus of recent origin and the last Act was passed in 1912. But the idea of co-operation is not altogether new to the country. The principle can be seen at work in the old *Ela Nidhis* or *Chit Associations* of Madras. The members of these *Nidhis* pool their savings by fixed monthly subscriptions. Every month lots are drawn, according to which the monthly collection is taken by one member, and he is debarred from having a second chance until all the members have had their turn.

General Progress. In 1915-16, there were 19,673 societies with just under one million members, and a working capital of about R. 100 millions. In 1925-26, the latest year for which figures are available, the number of societies in existence in the whole of India, including the native States, was 80,182, with a membership of over three millions and a working capital of R. 576 millions.[1] The record as revealed by the statistics is one of continued progress during the last decade. This is clear from the annexed diagram.

Success in the Punjab and Bombay. But what is more important than an increase in the number of societies or members, or even in the amount of working capital, is to consider whether the movement is being run on right and proper lines and whether it has taken root in the soil and what has been its net effect on the economic conditions of the people. Judged from this standard different provinces show different results. The work done by the co-operative credit societies in the Punjab and in Bombay Presidency

[1] The figures relate to the financial year ending 31st March, 1926, and are taken from *Statement showing Progress of the Co-operative Movement in India*, during year 1925-26, pp. 3, 4 and 5. The figures include both credit and non-credit societies, but the latter numbered only about 10,000. Even if separate figures for the former were given, the position would remain materially unaltered.

has won the admiration of every one who is interested in building up the rural credit structure of the country.

Consolidation of Holdings. Among other things, what has been accomplished in the Punjab, in connection with the consolidation of holdings, deserves special mention. It has been noticed in a previous chapter how fragmentation of holdings constitutes one of the serious causes of agricultural indebtedness. In the year ending 31st July, 1927, there were 314 consolidation societies in that province and they succeeded in reducing 45,165 blocks of land to 8,861 in the course of one year. The average size of a block increased from ·85 of an acre to 4·3 acres. The area restripped in 1926-27 was no less than 38,071 acres.[1] Large areas are now coming under cultivation which remained uncultivated in the past. 'Rents have risen as usual, out-turn of crops has increased, new land has been cultivated, and dry land brought under irrigation.' [2]

Grain Banks. A second feature of the Punjab co-operative movement is afforded by the 'Grain Banks,' a special type of credit societies in which thrift dealings are transacted in grain. These Grain Banks or *Dharam Golas*, as they are called in Bengal, are to be found in Behar and Orissa and also in Coorg, besides in the Punjab and Bengal. In the Punjab there were as many as nineteen such banks in July, 1927, and they had a working capital of Rs. 27,900.[3] The Grain Banks are meant as an experiment for such backward areas where rural economy is entirely in kind, and the people hardly see coins, much less use them. These grain banks may well serve as a means for educating the members up to the money economy.

Women's Societies. A third remarkable feature of the movement in the Punjab is that relating to the registered societies of women. In July, 1927, these societies numbered

[1] *Report on the working of the Co-operative Societies in the Punjab*, for the year ending 31st July, 1927, Pub. 1928, p. 28.

[2] *Ibid.* p. 29.

[3] *Ibid.* p. 19.

seventy-three, of which sixty-seven were for purposes of thrift and six were adult schools. They are mostly in the Lahore division. Of course there are many difficulties in the way of progress in the matter of women's societies, but courage is bound to succeed. It is gratifying to note that some women workers have already demonstrated what a great asset they can be to the country in her economic regeneration. 'The organization of a new society in Karnal,' writes the Registrar of the co-operative credit societies (in the Punjab), 'was entirely due to the arguments of a woman, who convinced the villagers, when the Sub-inspector had failed.' [1]

As to the Bombay Presidency, it is the first province in India which enjoys the distinction of having its own co-operative law, under the powers conferred by the Government of India Act.

Share Model System. In Sind a new system of finance, termed the 'Share Model System,' which was introduced in 1917, has amply justified the expectations which were formed of it. The system is quite simple. Every member is encouraged to subscribe as many shares of R. 20 each as possible, by paying for each share an instalment of R. 2 per year. So that a member who can save and invest R. 20 per year becomes, at the end of 10 years, the owner of shares worth R. 200 and thus builds up some capital of his own. This has actually happened. 'It is a common thing in a society of five years' standing for a small *zamindar* to hold Rs. 150 to Rs. 300 and for a *hari* to hold Rs. 100 to Rs. 150 in shares. There is thus a volume of real savings, and it is easy to see that the members of societies will be in a position to purchase a substantial amount of Barrage land when the opportunity arises.' [2]

[1] *Report on the working of the Co-operative Societies in the Punjab*, for the year ending 31st July, 1927, Pub. 1928, p. 7.

[2] *Report on the working of the Co-operative Societies in the Bombay Presidency*, for the year ending 31st March, 1927, p. 20.

As regards urban banking in the Bombay Presidency, the movement is distinguished by two special features. The first relates to the system of granting over-drafts against deposits at one per cent. higher interest than that allowed on the deposits. This is acting as an inducement to the people to deposit their money in the banks. The second system goes by the name of 'forced or compulsory savings.' The idea is that a borrower undertakes to deposit a certain sum of money for a number of years at a fairly high rate of compound interest, generally 5½ per cent. The principle is the same as that adopted in the case of 'Postal Savings Certificates,' and the high rate of interest is naturally an attraction.

Finance of Industry. What is even more important is the inauguration during 1926-27, by the Bhusaval People's Bank, of a policy of making loans against the security of agricultural produce or other goods. This system of finance is not new; it is common with the Indian joint-stock banks and has been explained in connection with the cotton industry.[1] But its adoption by a non-agricultural co-operative credit bank is a new and promising feature in the development of co-operative banking.

Position in Bengal, Assam, Ajmer Marwara and Coorg. Outside the Punjab and Bombay, however, the story of the movement is one of varying success. The latest annual reports available up to the time of writing show that the expansion of co-operative credit in Bengal,[2] Assam,[3] Ajmer Marwara,[4] and Coorg [5] has been very steady though not spectacular.

Madras. In the Madras Presidency, the position is not unsatisfactory. During the year 1926-27 the expansion of existing societies showed greater progress than in the previous

[1] See above, p. 49.

[2] *Report* for the year ending 30th June, 1926.

[3] *Ibid.* 31st March, 1927.

[4] *Ibid.* 30th June, 1927.

[5] *Ibid.*

year, which had been characterised by the weeding-out of a number of bad societies. The latest information relates to the appointment towards the end of 1927 of a committee under the presidency of Mr. Townsend, for investigating the working of the movement in the whole presidency.[1]

Behar and Orissa. In Behar and Orissa, '1,004 societies were registered during the year 1925, against 904 during 1924, and 129 were liquidated, against 92 in the previous year. The rate of expansion has been satisfactory, but the heavy toll of failures is regrettable, though the operation of dissolving these useless societies with the least possible delay is necessary to the health of the movement as a whole.'[2]

United Provinces. The United Provinces, quite close to the Punjab, have a different story to relate. There the Government appointed a committee in September, 1925, 'to inquire and report the reasons why co-operative societies in various localities have not succeeded better in gaining the confidence and support of the people.' The committee, after a careful survey of the whole field, came to the conclusion that, judged by proper standard, 'most of the primary societies of the provinces are a sham.' In their resolution on the Oakden Committee's report, the Government of the United Provinces state: 'This may appear to be a harsh judgment, but the Government on a careful consideration of the facts adduced by the Committee agree that it is substantially correct.'[3] The report on the working of the societies for 1926-27 is an honest admission of past failure and a hopeful augury for the future.

Central Provinces. The movement in the Central Provinces also seems to have languished, though in Berar it has

[1] *Report on the working of the Co-operative Societies Act, Madras,* for 1926-27, p. 48.

[2] Extract from Resolution No. 2083-D, Government of Behar and Orissa, Ministry of Education, dated 10th August, 1926, on the Report of the Registrar of Co-operative Societies for the year 1925-26.

[3] Extract from the Resolution of the Government of United Provinces on the Report of the Oakden Co-operative Committee, Sept. 1926.

made satisfactory progress. An idea may be gained from the following remarks made by the Government of the provinces: 'The process of weeding out lifeless societies was continued and the registration of as many as 232 societies that ceased to be co-operative was cancelled, making a total of 1,118 societies cancelled in the past four years. . . .' '. . . the percentage of sums overdue to sums outstanding works out to 60·5 and 16·2 in Central Provinces and Berar respectively. . . .' [1]

Burma. For Burma the Registrar of the Co-operative Societies strikes the following pessimistic note:

'. . . I am afraid that, generally speaking, we shall have to give up the idea of successful operation in Upper Burma . . . "there is no benefit or safety in lending too little." The difficulty comes in drawing the line. It may well happen that a new society strikes three bad harvests in succession, and has the greatest difficulty in repaying even its interest. Is the bank to finance it again for a fourth time, as if nothing had happened? If it does not, the members betake themselves to outside money-lenders, and these will take priority in dividing the spoils of what is sure to be an excellent season. If it does, then it has descended to the level of speculation. . . . This is surely the key to our failure in Upper Burma . . . *it will make no important strides till the general public begin to realise its value.*' [2] On the other hand, town banks and similar urban credit societies show good progress.

North-West Frontier Province In the North-West Frontier Province, no agricultural banks or co-operative credit societies existed at all until as late as 1925. After the passing of the Co-operative Credit Societies Act of 1904, steps were taken to make a start. The only society which worked there

[1] Extracts from Resolution No. 36/670-XIV of Government of the Central Provinces, Agricultural Department, 13th January, 1927, on the *Report on the working of the Co-operative Societies in Central Provinces and Berar*, for the year 1925-26.

[2] *Report on the working of Co-operative Societies in Burma*, for the year ending 30th June, 1926, p. 5. The italics are mine.

for any length of time ceased to exist in 1913-14. The rural population of the Province is orthodox Mahomedan and is opposed to the levy of interest or profits on capital. But economic pressure at long last proved stronger than a religious injunction and the ice was broken under the able leadership of the Registrar, Mr. C. F. Strickland. The movement was re-introduced into the province in May, 1925, and during the year ending 31st July, 1927, there were 27 agricultural credit societies and 11 non-agricultural credit societies with 681 and 77 members and R. 50,099 and R. 13,554 capital respectively.[1]

Summary of the Position. The general position of the co-operative credit societies may now be summed up. It is clear that if there are any two provinces in which the foundations of the movement are well and truly laid, they are the Punjab and Bombay, while the provinces of which this cannot be said are the United Provinces and Upper Burma and perhaps the Central Provinces—not Berar. In the North West Frontier Province, which was for long outside the movement, it is only during the last few years that any beginning has been made. In Bengal, Assam, Ajmer Marwara, Coorg and Madras the success of the movement may be regarded as average. Now if it be asked whether the co-operative movement has had a beneficial effect on the economic life of the country, the answer is certainly in the affirmative. No one who has visited villages in the Punjab or Bombay can fail to be struck by the improvement which the co-operative societies have brought about in the economic conditions of their members. But if it be asked whether the societies have succeeded in destroying the monopoly of the indigenous money-lenders, the answer is in the negative. Of course, in some parts, rates of interest have tended to decline, and here and there, notably in the Punjab and

[1] *Report on the working of the Co-operative Societies in the North-West Frontier Province,* up to 31st July, 1927, p. 2.

Bombay, it is noticeable that some money-lenders have either given up their profession or changed their methods. But on the whole the money-lenders are still the masters of the situation. Judging from a comparison of the total working capital of the co-operative societies with the estimated total indebtedness to the money-lenders the co-operative movement as yet covers only a comparatively small part of India.

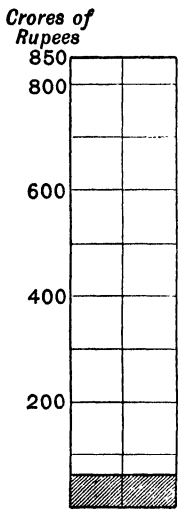

DIAGRAM VII.

The entire block represents the total private indebtedness taken at R. 850 crores. The shaded portion represents the total working capital of the co-operative societies of all kinds R. 58 crores in 1925-26.

Causes of Slow Progress. This leads to the important question as to why the movement has not made more progress in India? The fact that the same movement should have succeeded in all western countries, in Japan, and to an appreciable extent in at least two big provinces of India, rules out beyond doubt the proposition that the movement is of doubtful utility in itself, or that it is capable of yielding no good results in India. The right explanation must therefore be sought in the examination of its working both where it has failed, and where it has succeeded.

A little reflection will show that one thing which is woefully lacking in India, but exists in the western countries which have reaped benefit from the movement, and which co-operation assumes from the very beginning, is an all-round literacy among its members. When all, or almost all the members of the societies, are illiterate and unable to grasp and appreciate the meaning of co-operation as quickly and effectively as they would otherwise do, it is idle to expect any better results than have been experienced; as things are,

an indigenous money-lender is preferred to a co-operative society, because of the personal touch and appeal which he makes to his customers. Many good-hearted money-lenders would often accommodate their customers in ways which would not be possible for a modern banking agency to do. A borrower can always supplicate for mercy. Even a usurer will sometimes make a remission not out of charity, but in mere self-interest. He knows that by foregoing a small sum on some occasions he can retain business which will more than make up for the temporary loss before long. Sheer ignorance prevents the borrower from seeing through the game. He is easily taken in. This is the more so because in India the members of the co-operative societies entertain very erroneous notions about the movement. As an instance, in the course of my inquiries, I was struck by the fact that almost every member with whom I had an opportunity of talking looked upon his society as a State agency for granting loans. Asked as to who gave the loans the usual reply of a member was *Sirkar* (Government). Few members remembered the rate of interest they had to pay.[1]

For removing such wrong impressions from the minds of the members, one of the usual suggestions made is to carry on extensive propaganda by means of the distribution of literature in vernaculars. Quite a sound proposition one would think. But of what use can any number of pamphlets be, if those for whom they are meant are unable to read them? A question may naturally be asked. How then has the movement made headway in the Punjab and Bombay and several other provinces? It is not because they are more literate than other provinces, as they are not appreciably so, but because of other reasons, which are given in the following pages. For one thing, the Punjab, which in spite of its

[1] These inquiries refer to the United Provinces and the Central Provinces. The Oakden Co-operative Committee of United Provinces which reported in Sept. 1926 also remark, 'In the country-side the village co-operative society is known as the *Sirkari* Bank (meaning State Bank).'

illiteracy is ahead of other provinces in co-operation, has tried with success propaganda work by means of popular songs which the strolling bards go about singing in the villages—a lesson learnt from the old Folk High Schools. Yet other schemes of lantern slides and demonstrations have been adopted in the Punjab and elsewhere with varying success. But so long as the people are unable to read and understand for themselves one can do but little, unless one can talk to every individual.

Along with, and as a consequence of, illiteracy, there is ignorance and the problem of wasteful social customs, which lead people to borrow money for unproductive purposes. This is even a more serious handicap in the progress of the co-operative movement, because the general ideas prevalent among the people are essentially uneconomic. They keep going to a money-lender rather than to a co-operative society, because the former will lend for unproductive purposes while the latter will not do so. Moreover, with the former a borrower is protected from any publicity of his debts, a knowledge of which might affect his social position. In the case of a co-operative society such absolute secrecy is not possible. What is needed is to bring about a change in the ideas of the people by arousing in them a desire for a higher standard of living.

But if the debtors are a prey to illiteracy and ignorance, it is often forgotten that the creditors are not free from the effects of this curse. They lack both initiative and enterprise. The following remarks of Professor Marshall, though they may look harsh, are not without truth. 'Among races whose intellectual capacity seems not to have developed in any other direction, and who have none of the originating power of the modern business man, there will be found many who show an evil sagacity in driving a hard bargain in a market with their neighbours. No traders are more unscrupulous in taking advantage of the necessities of the

unfortunate than are the corn dealers and money-lenders of the East.' [1]

Educational Foundation. It will thus appear that any progress in the co-operative movement, in fact any improvement of the system of indigenous banking, must depend, in a large measure, on widespread literacy. No institution, however beneficent, can be expected to flourish in a society which is not literate enough to understand the working and utility of the mechanism. Besides banking there are several other problems relating to rural areas such as hygiene, sanitation, insufficient medical aid, cattle disease (cure and prevention), wasteful social customs, etc., which are to a large extent due to the illiteracy and ignorance of the agriculturist, and have an intimate bearing and reaction on banking problems such as the indebtedness of ryots. Therefore the desirability of a strong policy for the dissemination of education, so often emphasised, cannot be over-emphasised.

National Consciousness. But what is needed is not merely the imparting of instruction in reading and writing. Efforts should be made to bring about a national consciousness—a widening of the mental horizon—with a view to enabling people to live a better life intellectually, physically, socially, economically and morally. This can only be achieved by following an educational policy liberally conceived to suit the peculiar social and economic conditions of the country—a policy in the administration of which both the Government and the public must wholeheartedly co-operate. The Government can do a good deal, but if any satisfactory progress is to be made, it will depend much more upon private effort and the lead given by the leaders of Indian thought.

Educational Policy and Economic Policy. The educational policy must therefore be not separate from, but complementary to, the economic policy. Experiments in the

[1] *Principles of Economics*, by A. Marshall, 1907, vol. i. p. 7.

Punjab have clearly demonstrated that it is not necessary to have separate agricultural schools for boys in the primary or secondary stages. What is necessary is to adapt the courses of instruction to rural conditions. It must be recognized that the village is the unit which deserves and must receive the first and most prominent attention in any scheme of Indian education. India needs Colleges and Universities for the advance of knowledge, but even more, India needs literate masses whose interests must not be neglected or treated with indifference. That it is the villages which must be educated first is now being realised. If this is done and the key-note of teaching in all stages is directed towards keeping students in the closest touch with the actual life and needs of the people, even the existing educational institutions can be made to yield surprisingly good results in the economic reconstruction of India. Confining our attention to indigenous banking, let us see the possibilities which may well be tried.

Primary Schools. In the primary schools, the boys can be introduced to the mysteries of the elements of bank accounting by well-graduated arithmetical exercises on interest, commission, etc. This was actually done in the old days, through the good offices of a local banker who was one of the members of the school committee. This may be gathered from an interesting picture of a school visit by Mr. Sharp.

'Our visit is expected; and some quarter of a mile from our destination we perceive a little group awaiting our arrival. This is the school Committee, composed of the village elders . . . the stout member, whose ears are encircled by two strings of gold plaques, and whose bright yellow cap is set rather rakishly on whitening locks, is the local *bania* or merchant whose duties in connection with the school are to teach the boys the mysteries of cash-book and ledger.' [1]

[1] *Occasional Reports No. I.: Rural Schools in the Central Provinces*, by H. Sharp, Calcutta, 1904, p. 3.

Similarly books for reading may be remodelled so as to contain interesting stories with a view to introducing the boys to savings banks or credit societies. Rural primary schools should have a different curricula from urban ones.

Middle and Secondary Schools. The middle and secondary schools afford still greater opportunities for inculcating in the boys' minds the advantages of thrift and co-operation, and familiarising them with the methods of investment in institutions, based on the principles of co-operation. They may well be encouraged to run their own consumers' societies in schools with the help of the teachers. The curricula of teaching may well include such subjects as agriculture, rural economics, rural hygiene and sanitation, rural administration, physical geography. This is done in some vernacular middle schools in the Punjab and may well be extended to the English secondary schools.

School Teachers. In order to achieve successful results both suitable books and teachers are necessary. The village teachers especially should be properly trained. Their emoluments and status need considerable improvement if a good standard of efficiency is desired.

Village Libraries and Propaganda. Village libraries should be opened for the public, as in the Punjab, where these have been attached to 1531 middle schools.

Yet another way to interest the villagers, which is being tried in the Punjab, is by the formation of a Rural Community Board at headquarters and District Community Councils. They supervise and organize library arrangements, provision of pamphlets and journals to be read to the village folk by teachers, arrangements for the preparation of lantern slides, lecture notes, etc. Recently, demonstration railway trains have been organized and seem to be promising.

Adult Schools. The efficiency of the Indian cultivator will be greatly increased, if efforts are made to adopt a scheme of adult education for rural areas in which provision should

be made for specialised agricultural education in the vernacular. The Punjab and Bengal have taken a lead in the matter of such adult education. On 31st March, 1926, there were 3,208 such schools and 85,422 pupils in the Punjab. It is for other provinces to follow this example.

Colleges and Universities. If the primary and secondary schools can be used to introduce boys to credit institutions, the colleges and universities are just the place for the collection and promotion of knowledge in regard to them. The Economics departments of Indian Universities might well take inspiration from the example of English and American Universities in this matter.

Under-graduates should be encouraged to go out into the villages to carry to the people the ideas of co-operation, to study the problems of poverty and indebtedness, to carry out banking surveys in select areas, and to initiate reforms.[1] This can be done in every Indian university by according the subject of banking an important place in the curricula of a first degree in Economics, by organizing a research department and by instituting a university chair in banking. To encourage good work prizes might be awarded for research essays of merit and suitable monographs should be published by the university. The university professors can well set an example to their younger colleagues and students by starting and editing economic handbooks like the London School of Economics Series of Monographs, the Cambridge Economic Handbooks, and the Columbia University Handbooks, and by forming circles of study. Professor H. S. Jevons had formed a study group at Allahabad called *Kautilya Circle*, after the name of Kautilya the famous ancient Indian economist. The circle did some good work for a time by bringing out several useful pamphlets which

[1] In this connection Sir Selwyn Fremantle's practical suggestions as to the possibilities of University work in the sphere of the economic regeneration of India are excellent in pointing the way. See his *Convocation Address to the University of Allahabad*, 21st November, 1925.

embody the results of first hand inquiries conducted by the members, but it proved unsuccessful. Doctor Gilbert Slater, as University Professor of Indian Economics at Madras, made interesting inquiries of an exhaustive character into the obscure village life in the Madras Presidency, the results of which were published as ' Economic Studies : Some South Indian Villages.' But these are isolated attempts of a few individual professors. If work on such lines were conducted, as a concerted measure, there is reason to suppose that much scientific and useful information at a comparatively small expense and in a short time would be made available to the public and to the Government ; without such information no scheme for progress can be efficiently devised or carried out. Special grants of money must be allotted for this kind of research work.

So much for the present illiteracy and ignorance, as a hindrance to the progress of the co-operative movement, and for the proposed methods of fighting against it. The second reason why the co-operative credit societies have failed to take root in the Indian soil, in so far as they have failed, follows as a corollary from the first. In the peculiar conditions of India, where private initiative is wanting, very much depends upon State aid, organization and encouragement. Taking the question of the agency alone, it must be realised that the working of the co-operative movement needs a high degree of technical study and practical training on the part of its workers—paid or honorary, official or non-official—if they are to administer and guide it on right lines. But above all, they must be thoroughly familiar with the rural conditions of the particular area in which they have to work, and be full of tact and sympathy in order to win the confidence of the people. What every province needs in India is a Strickland, a Calvert and a Darling—the three co-operative heroes of the Punjab—earnest workers endowed with natural abilities and equipped with practical training,

all actuated by a sincere desire to render disinterested service, all imbued with the true spirit of co-operation.

Then again district authorities and Government Officials can do much to help and encourage the movement. But, however gifted and earnest the officials may be, the movement is primarily one whose success will depend considerably, if not entirely, on the co-operation which may be forthcoming from non-official workers, who can enter into the thoughts and feelings of the rural population and can talk to them in the language which they can understand. This is well illustrated by the success achieved in the Bombay Presidency, where unstinted non-official support poured in from the very beginning. The example set by Mr. G. Deodhar and Sir Lallu Bhai Samaldas may well be followed by workers in other provinces.

Thirdly, given the requisite official and non-official support, care must be taken that the foundations are truly laid. It must be borne in mind that the village societies are the backbone of the whole movement. Unless they are strong, they will not be able to bear the superstructure raised upon them. Often the mistake in India has been in an excess of enthusiasm to start too many societies. In more cases than not, societies have come to grief, because sufficient care was not taken to ensure their co-operative spirit, at the time of their birth. What is needed is caution in the starting of new societies, and effective supervision in the maintenance of those existing.

Fourthly, in order to make the whole thing simple and intelligible to the ryot, the methods of co-operative societies, whether in the giving of loans, calculation of interest, or repayment of loans, should be adapted and approximated as much as possible to the indigenous conditions and local customs in different parts of the country. For example, an important direction in which improvement is called for is the period fixed by the societies for the repayment of the loans.

The fortunes of an Indian agriculturist are bound up with his crop, the success or failure of which depends largely upon the climatic conditions. The period of a year or two allowed by some societies is often insufficient for a borrower to redeem his debt without seeking the help of the money-lender. No hide-bound rules must be laid down in this matter. In foreign countries, such as Germany, much longer periods are allowed for the repayment of debts. The length of loans in various parts of India must be regulated by means of climatic circles, determined locally according to the natural conditions.

Then again, the English methods of quoting rates of interest at so much per cent. per annum baffles an average Indian village borrower. He hardly understands what 15 or 12½ per cent. per annum means, but he understands 'half anna per rupee per month' (which comes to 37½ per cent. per annum), which he usually pays to the *mahajan*. If, therefore, instead of being told that the rate of interest is 12½ per cent. per annum, he is told that in his own society he need only pay as interest half anna on every three rupees per month, he can clearly appreciate that he is thereby paying only one-third of what he would otherwise have to pay.

Fifthly, the co-operative credit societies have to solve the problem of attracting capital. We have seen that the present working capital in all kinds of co-operative societies is about 58 crores of rupees, while the total private indebtedness is estimated at about 900 crores. Until large amounts of capital pour into the movement, the societies cannot hold their own against the rival money-lenders.

One of the ways recommended by the ninth conference of Registrars is so to amend the Indian Trust Act of 1882 as to permit the investment of Trust funds in the debentures of Provincial Co-operative Banks.

Here, as elsewhere, real progress will seem to lie in the close co-operation between various existing credit institu-

tions. Much must depend on the policy and activities of the Imperial Bank of India as the principal bank of the country. It is already doing useful work by extending its banking operations, by bringing banking facilities to the people and developing banking habits among them. As the bulk of the population of India lives in the villages, and as it is neither feasible nor profitable to establish a branch of the Bank in every village, the best policy for the Bank will seem to be one of interconnection with some organization catering for the banking needs of the villages, *i.e.* the co-operative credit societies and the indigenous bankers. Even at present, as we have seen in an earlier chapter, the Bank has connections with these institutions. It may well adopt a more liberal attitude in advancing cash credits to the central bank or provincial bank against pro-notes of village societies, endorsed by the central or provincial bank respectively. Similarly cash credits may be allowed to the provincial bank against pro-notes of central banks, endorsed by the provincial bank. The Imperial Bank can co-operate with the co-operative movement in various other ways such as interest charges, remittance facilities, flotation of debentures of co-operative provincial and land mortgage banks, sanction of advances against mortgage taken by the co-operative mortgage banks.

Similar policy may well be commended to the Indian joint-stock banks. The establishment of such interconnection in the Indian money-market will open up further possibilities, the extent of which is not yet fully realised. It is well known that the joint-stock banks have large amounts of money lying idle in their vaults during the hot weather. This coincides with the period when agriculture is in need of capital. On the other hand, during the cold season funds are needed for trade and commerce, while they are redundant in agriculture. The co-operative societies and joint-stock banks have here an example of how they might be of mutual service

and benefit to each other. This has been done to some extent in Bengal. Such a link should be of distinct advantage, both to agriculture and trade and commerce.

If the steps outlined in the preceding paragraphs are tried and the co-operative credit societies are run on sound and sure lines, they should go a long way in solving the problem of rural credit. The societies will be able, on the one hand, to divert loans from unproductive to productive channels and to improve the credit and security of the borrower by inculcating the lessons of thrift and self-help and, on the other hand, they will be able to destroy effectively the monopolistic nature of the trade of the money-lender—thus removing from his path the many evils and temptations to which he is a prey at the present time.

But one of the most serious problems with which the co-operative societies will have to deal for some time to come is that of the existing accumulated debts, due to high and compound interest, or to uneconomic methods and habits and to dishonest dealings. Until the cultivator and artisan are relieved of this terrible burden, no progress is possible. It is not sufficient to commit no sins in the future, atonement must first be made for past sins. The debt redemption societies in Bombay have pointed out the way and much can be done through the tactful influence of the office-bearers of the co-operative credit societies. If they only set about it in an earnest way, they can, more often than not, succeed in coming to some terms with the money-lender on assuring him that the debt will be repaid in instalments by the society itself.[1] In this connection some of the recommendations made by the ninth conference of Registrars of Co-operative Societies in India held in 1926 are worthy of commendation. They are given below.

[1] 'During our investigations my officers and I often arranged terms of composition and induced money-lenders to accept far less than their nominal dues' (J. C. Jack, *op. cit.* p. 109).

'(1) It is desirable that well-conducted village societies should undertake liquidation of old debts as far as possible and consistent with the current needs of members, but no such society should take up the work until it is in a position to lend money for a sufficiently long period to enable members to repay their loans to it from their income.

'(2) It is recognized that Provincial and Central Banks may lend a portion of such funds as they are in a position to invest for a long term, in assisting village societies to take up the work of the liquidation of old debts.

'(3) A society undertaking liquidation of debts on a large scale should prepare definite schemes after ascertaining carefully the debts, both secured and unsecured, of the members and the lands they hold, and that in this work it should be assisted by the union staff of the Central Bank, or officers of the Co-operative Department.' [1]

It must, however, be admitted that the co-operative credit societies are not, as a rule, fitted to make long-term loans, because they do not possess adequate long-term money. They are not in a position to satisfy the demands of their members for loans for long periods ranging from say seven to twenty years for the purpose of prior debt redemption or land improvement. It is therefore necessary to have some organized institution for providing long-term credit just as the co-operative credit societies make short-term loans.

Here again we can turn to western experience for guidance. In Europe and in America the problem of long-term credit has been solved by establishing land mortgage banks which have proved successful in those countries. The whole question was investigated by a sub-committee and discussed by the ninth conference of Registrars of Co-operative Societies in India in 1926. Their final recommendations are embodied in the following resolution.

'(1) Mortgage banks based on co-operative principles are

[1] *Proceedings of the Ninth Conference of Registrars of Co-operative Societies in India*, 1926, pp. 16-21.

desirable in many parts of India. No transaction should be undertaken which is not economically profitable to the borrower.

'(2) *Objects*—The principal objects should be :

(*a*) the redemption of the land and houses of the agriculturists,

(*b*) the improvement of land and of methods of cultivation and the building of houses of agriculturists,

(*c*) the liquidation of old debts, and

(*d*) the purchase of land in special cases to be prescribed in the bye-laws.

'(3) *Area and Management*—The area of operation should be the smallest unit consistent with competent management. The imposition of liability on village credit societes or the confinement of mortgage loans to members of such societies are not recommended, but the bank should consult the village society in the case of all loans to members of such a society. When there is no legal obstacle, preferably a mortgage with possession should be taken and the mortgager should be retained as a tenant of the bank.' [1]

Even before the meeting of the Registrars' conference, several Indian provinces had adopted the scheme of land mortgage banks.

In the Bombay Presidency, the Government for some years placed 15 to 18 lakhs of rupees a year at the disposal of the co-operative department for land improvement and house building. Recently certain areas where the co-operative movement is sufficiently advanced have been declared as suitable for the distribution of *Taccavi* loans through co-operative societies. According to the latest report, the scheme of land mortgage banks is 'the most discussed question amongst co-operators.' [2]

In the United Provinces, the recent Oakden co-operative committee which examined the question of land mortgage

[1] *Proceedings of the Ninth Conference of Registrars of Co-operative Societies in India*, 1926, pp. 83-91.

[2] *Report on Co-operative Societies, Bombay*, 1926-27, p. 46.

banks did not recommend their formation in the province for some time to come till the co-operative societies gained in strength, and the Government have accepted the recommendation.

The latest information available in regard to the Central Provinces is that the provincial Government 'await with interest the report of the Registrar,' [1] on the subject of land mortgage banks.

In Burma, the two land mortgage societies in the Mandalay district have proved moribund and may be disregistered. A land mortgage bill is, however, under the consideration of the provincial Government.

A beginning was made in Assam by establishing a land mortgage bank in the district of Kamrup in 1926. A second bank has been opened in Sylhat, since March, 1927.

In Bengal a land mortgage bank was established as an experimental measure. It started work during 1925-26 and promises to be successful for supplying long term loans.

The Madras Presidency has adopted a bold policy of establishing land mortgage banks on the limited liability basis. The operations of each bank are restricted to a compact group of villages and the borrowing power is a certain determined proportion of the paid-up share capital. The bank issue debentures against the landed property pledged by the members. On the 30th June, 1927, there were ten land mortgage banks in existence, but only two have been doing appreciable business. These two issued debentures to the extent of R. 1,59,000, of which those to the value of R. 97,000 were taken by the public.[2] It is too early to expect any better results.

In the Punjab there have been since 1926-27 eleven mortgage banks, four of the old type (unlimited liability) and seven of the new. The new banks are based on the

[1] C. P. Government Resolution, *op. cit.* 7th February, 1927.

[2] *Report on Co-operative Societies, Madras* (1926-27), p. 18.

principle of limited liability and work in a comparatively small area. They also require the borrower to furnish a partial guarantee (up to R 1,000) of his loan from a credit society, if such a society exists in his place of residence. The banks have a membership of 3,344 individuals and 166 societies and a working capital of R. 13½ lakhs of which 5¾ lakhs is contributed by Government at 6¾ per cent. The banks are progressing, but they need a vigilant watch, especially in the early years of their inception. Strictness in the matter of the punctual repayment of loans is desirable. It is curious but none the less true that the defaulters are usually the biggest borrowers.

Among Indian native states, Mysore has been the first to adopt the scheme of land mortgage banks. The Government of Baroda has also recently approved of the land mortgage bank, which is to be financed by the issue of debentures, supported by an ultimate Government guarantee, for the repayment of both principal and interest.

The public is now becoming alive to the utility of land mortgage banks in India. A resolution for the establishment of these institutions to provide agriculturists with long-term, easy and productive credit was moved by Mr. V. Randas Pantulu in the Council of State in February, 1927. The resolution received all-round support and was carried. It is for the various provincial Governments to push in the matter steadily but not slowly.

So *far we have discussed the question of rural credit* institutions for both short- and long-term loans. With regard to the problems of agricultural debt, it must be borne in mind that the solution lies not only in improving credit facilities but also in improving the credit which a borrower enjoys. The amount of loan which a borrower can get and the rate of interest which he must pay depend, among other things, on his financial standing. We must investigate the reasons why the cultivators' return is as low as it is in India.

In other words, the problem is not to reduce the amount of a cultivator's loan and thereby the interest payable on it, but to enable him so to utilise the capital borrowed as to produce more and yet more. The amount of loans he has to take does not matter in the very least, provided the rate of interest is fair and the loans are productive—the former depending upon the latter. One of the means of increasing productivity, as pointed out, is better education, using the word in a wide sense. But there are other ways of adding to the meagre income of the villager. There is room for hope in the cottage industries, for example. The Royal Agricultural Commission is at present going into the question in all its bearings and its recommendations should be of far-reaching character and should result in increasing the productivity of the peasant. The more he will be able to produce, the more solvent he will be and the better terms he will be able to obtain for borrowing for his needs.

Other Suggestions. Having discussed the remedies already applied or in the course of application, and the directions in which improvement is possible, attention must now be turned to certain suggestions which are either new or which have hitherto failed to receive the consideration which they deserve.

Urban Co-operative Societies. So far the co-operative movement in India has been largely confined to the provision of rural credit. Great possibilities lie in its extension to urban centres with a view to meeting the financial needs of the small traders and industrialists. A beginning in this direction has been made in Bengal, where a number of industrial societies are making fair progress.

'Foremost among these societies are the Weavers' Associations, one of which, the Bagerhat Co-operative Weaving Union, has started the first co-operative cotton mill in India. Considerable advance was also made in the organization of the silk industry on a co-operative basis. The Dopukuria Silk-Reeling Society in

Murshidabad took up the construction of the first co-operative factory of its kind for reeling silk in filature. Societies have been formed to carry out different processes in the manufacture of silk from cocoons reared by other societies and all these will co-ordinate their activities and thereby make the manufacture of silk by co-operative societies in Bengal into a self-contained industry.' [1]

Co-ordination between Government Departments. It is only recently that the importance of co-ordination between various departments of the Government has been realised. Since it is the aim of every department to conduce to a higher standard of living for the people, the more they co-operate with a view to avoiding the overlapping of efforts and assisting in the working of mutual plans, the cheaper, the more efficient, and the quicker will be the results. We have already seen the importance—we might say the indispensability—of co-ordination between the department of education and other nation-building departments, such as co-operation and agriculture. Similarly there must be close co-ordination between the departments of agriculture, co-operation and industries. Some of the problems of these three departments are common, and where they vary they react on each other. In order to make co-ordination easy, it will be a good plan to place these three departments, which are 'transferred,' under charge of one Minister. The Minister, the heads of the departments, and the Government Secretaries may, for purposes of consultation and concerted action, form a Board.

Co-ordination need not be confined to various departments in individual provinces or even to the departments in the Government of India. Mistakes made in one province are sometimes seen repeated in another. This can be largely avoided if there is a central agency to collect and co-ordinate results from new experiments tried in various parts of the country.

[1] *India in* 1926-27, p. 344.

Banking Statistics. The subject of banking statistics is of such vital importance that it deserves special attention. As will appear throughout this work, practically no statistics in regard to indigenous banking exist at the present time. Here again, the example of the West has a lesson which India can ill afford any longer to ignore. In this connection the findings of Professor Burnett-Hurst, Secretary of the Indian Economic Enquiry Committee of 1925, published as his minute of dissent to that Committee's report, are well worthy of adoption. The Royal Currency Commission recently drew attention to the same recommendations. A majority of the Indian provincial Governments have also lately expressed themselves in favour of them.

Economic Research. Of equal urgency is the question of economic research and inquiry into any scheme for solving the rural credit and allied problems in India, because of the deplorable lack of reliable and scientific economic studies relating to the country.

This is a work in which the Universities as well as the general public may well co-operate. Such co-operation has been achieved in the Punjab by the Board of Economic Enquiry, which was started there in 1919. It is composed of both officials and non-officials interested in economic research. It is divided into two sections, rural and urban. The secretary to both the sections is the University Professor of Economics (Prof. Myles at present). Much useful work is being done by the board in the Punjab. We noticed in regard to the subject of indebtedness that better knowledge was available about things in the Punjab than elsewhere. Similar boards, if established in other parts of the country, may yield equally good results.

Besides students in the universities, persons interested in economic subjects, such as indigenous banking, might well be encouraged, by the offer of prizes, to contribute articles to the newspapers in the various provinces.

Institute of Bankers. In order to encourage banking education, it is suggested that an Institute of Bankers should be established in India. The proposal has formed the subject of correspondence between the Government and the Managers of the Imperial Bank, and they both approve of it. It is to be hoped, however, that the examinations should be optionally in English or in the vernacular, and that journals and pamphlets of the Institute should be published both in English and in the Indian vernaculars.

CHAPTER VIII

THE FUTURE OUTLOOK OF INDIGENOUS BANKING

AN important stage in the inquiry is now reached. An analysis and discussion of the indigenous system of banking, with a view to formulating a policy for the future, have been completed. In the preceding chapter, the remedies both old and new, whether legislative or otherwise, which are being tried to improve indigenous banking, have been subjected to a close examination and made to yield certain suggestions. Such discussion and examination have disclosed beyond doubt the fact that the co-operative movement is full of potential good, if certain conditions are fulfilled. These conditions and circumstances have been outlined and briefly described.

But a question of great importance still awaits an answer. What is the future position which the indigenous bankers are going to occupy in the banking structure of the country? This question is of paramount importance in any scientific study of the subject. The problem has for long agitated the minds of the people and has assumed special significance in the India of to-day, when subjects of banking structure, organization and reform are live problems engaging the attention of both the Government and the public of the country alike.

1. NEED FOR A BANKING INQUIRY.

In this connection, the External Capital Committee of 1925, which had been appointed 'to consider the question of the flow of capital into India from external sources,' made

some important recommendations. These are well summarised in paragraph 4 of the summary, in the Committee's Report, which runs as follows :

'India possesses a vast store of dormant capital awaiting development, and in order to make this available for investment banking facilities must be increased and extended. The examination of the various technical measures suggested in the replies with this object is outside the scope of the Committee, but we would emphasize the importance of a co-ordinated survey being undertaken at the earliest opportunity of the whole field of banking in India. This should be followed by a detailed examination by an expert committee or committees of the lines along which progress should be effected.' [1]

A couple of months after the publication of the report of the External Capital Committee, Sir Basil P. Blackett, the Indian 'Chancellor of the Exchequer,' in his memorable speech at the University of Delhi on 'Indian Banking and Monetary Progress,' drew pointed attention to the above recommendations of the committee and deplored the fact that 'unfortunately there is very little information available regarding indigenous banks.' He therefore recommended the subject of indigenous banking as one 'on which a special study would be both interesting and instructive.' Soon afterwards he circularised all the Provincial Governments and the Managing Governors of the Imperial Bank of India in regard to the procedure which should be adopted in order to effect a comprehensive survey of the whole field of Indian Banking, with special reference to indigenous banks, such as was recommended by the External Capital Committee. The replies received by the Government of India are to be found published in the Reports of the Indian Legislative Assembly for 31st January, 1927.[2]

Recently the Indian public has taken a keen interest in the subject and in 1927 Mr. S. N. Haji moved a resolution

[1] *Report of the External Capital Committee*, 1925, p. 15.

[2] See *Legislative Assembly Debates* (Official Report), vol. i. pp. 223-276.

in the Indian Legislative Assembly in which he asked for the early institution of a Banking Inquiry.[1] Sir Basil Blackett, on behalf of the Government, admitted the desirability of the inquiry into the question of the development of banking facilities in India, which has also been recommended by the last Royal Commission on Indian Currency, but pointed out that the time for its immediate appointment was not opportune, in view of the pending inquiries of the Royal Agricultural Commission, which is considering, *inter alia*, the problems of agricultural banking.

The demand for a Banking Inquiry was reiterated at the fifth annual meeting of the Indian Industrial and Commercial Congress, held at Madras in December, 1927. There a resolution was unanimously passed supporting Mr. Haji's motion in the Indian Legislative Assembly to which reference has just been made, that an inquiry should be held at an early date with a view to improving and revitalising indigenous banking.[2]

It is evident that there is a keen desire on the part of Indian leaders to have an Indian Banking Inquiry. This is also one of the main recommendations of the External Capital Committee, which has been adopted and on which preliminary action has been taken by the Government in inviting the opinions of the provincial governments and the authorities of the Imperial Bank of India. Whether it will be an all India Committee, or a number of provincial committees, no one, except perhaps the Government, yet knows, but that an inquiry is going to be instituted is only a question of time. When such an inquiry does take place, one of the most important and complex problems for it will be to determine the future of indigenous banking in India. In the consideration of this problem the committee will be face to

[1] See *Legislative Assembly Debates* (Official Report), vol. i. p. 674 (10th February, 1927).

[2] This information is based on a short account of the proceedings of the Congress which appeared in the *Pioneer Mail* of the 6th January, 1928, p. 10.

face with an entirely new field of investigation, because practically no constructive scheme or suggestions of a detailed character regarding the subject are yet available.

The scheme outlined below in this study lays no claim to the solution of a problem whose urgency is being realised only recently and on which little light has yet been thrown by Indian economists. The proposals in the following pages are made, in all humility, with the object of assisting the process of clarification and presenting something which may provoke discussion and criticism on what is admittedly a thorny problem.

2. THE NATURE OF THE PROBLEM.

A Preliminary Question. Now the question as to what part the indigenous bankers should play in the future banking re-construction of the country must be preceded by the question as to whether they should play any part at all. There is in India a school of thought which honestly believes in the complete abolition of the indigenous banker in the immediate or near future. Followers of this school are so disgusted with the atrocities of the money-lending class that, if they were to have their own way, they would do away with the whole lot, root and branch, to-morrow. One has only to look into the official reports of the debates of the legislative councils in the various provinces, especially the Punjab, and of the Legislative Assembly—called the Imperial Legislative Council until the introduction of the Reforms in 1919—for the last quarter of a century to feel convinced not only of the existence but even of the increasing numbers of the votaries of this school. The speeches of several non-official members of these legislative bodies, delivered in connection with the various ameliorative measures in regard to Indian banking which have been discussed already in these pages, if summarised come to nothing more or less than this. The indigenous banker is practically an unmixed evil, he must be

done away with entirely and immediately, once and for all. While lending their support to all ameliorative measures, the exponents of this school feel that the measures are insufficient, they want something drastic. They are not content with the progress of co-operative credit societies.

Now one can agree with the view that the ameliorative measures are insufficient and that the progress of co-operative credit societies is not what it should be and yet not be able to subscribe to the main proposition propounded by this school. Two questions must be asked in this connection. Firstly, is it possible or practicable to do away, in the immediate or near future, with all the bankers and money-lenders. Secondly, even if it be practicable, is it desirable to do so? Taking the first question first, it must not be forgotten that it cannot be tackled without taking into consideration the immense area and the peculiar conditions of the country. An idea of the vastness of the problem may be gained by remembering that the population of India exceeds 318 millions, that the bulk of this population is held by the villages, and that the village finance of agriculture and cottage industries is almost exclusively in the hands of village money-lenders, inasmuch as there are no joint-stock banks in the villages, that only relatively few villages have co-operative credit societies, and even where a society does exist, it meets usually only a very small part of the credit needs of the villagers. So that to think of the disappearance of all indigenous bankers and money-lenders in the immediate or near future is to imagine an impossibility. But even if such a consummation were practicable, we might very well ask, is it desirable? If to-morrow by state legislation—it is difficult to think how state legislation can bring this about—or in some other miraculous way, all bankers and money-lenders were spirited away or they ceased to function as bankers or money-lenders, would this be desirable? The answer to the question would be in the affirmative, if, at the

same time, a better agency to take the place of indigenous banking were, by some miracle, simultaneously provided. Unfortunately in the world in which we live such miracles are of rare occurrence. If, then, it is not possible to build a superior machinery for rural credit in the same short period which it would take for the indigenous bankers, one and all, to be sent to the wall, we are driven to the conclusion that such a step is not desirable. So that it follows that the complete disappearance of the indigenous bankers and money-lenders, in the immediate or near future, is neither practicable nor desirable.

Now if the indigenous bankers and money-lenders are not to disappear wholesale, in the immediate or near future, it is not difficult to see that they must have a place assigned to them in the future of Indian banking. So we return to our original question as to what this place is going to be.

Need of Correlation between the Bazaar and Bank Operations. In this connection, it is important to bear in mind that the organization of the present banking structure of India is not compact. The fact that most of the credit operations of the country, which are in the hands of the indigenous agencies, lie largely outside the influence of organized banking institutions, makes it impossible to pursue any uniform credit policy to which all the credit institutions of the country would readily respond. No answer to the question of the position of indigenous bankers in the future Indian banking system can therefore be regarded as satisfactory which does not make for the correlation of the *Bazaar* and Bank operations to the mutual strengthening of each other.

Indigenous Bankers and the Proposed Reserve Bank. The necessity of a central institution such as may unify and control the currency and credit mechanism of the country was clearly perceived by the last Royal Commission on Indian Currency. The Commission accordingly recommended the

creation of a new 'Reserve Bank of India' entrusted with the powers of note issue and charged with the care of the Government and Banking reserves of the country. This is the approved line along which, from the banking point of view, satisfactory progress has been made by the great trading nations of the west. But whether a Reserve Bank will, by the mere act of its creation, be able to succeed in bringing the entire credit machinery under its influence and effective control, does not appear to us to be free from doubt.

African Experience. The experience of South Africa, where the Reserve Bank established in 1920 has had to deviate from the path which was originally laid down for it, must serve as a warning that, in banking as in other things, what has succeeded in western countries may not be quite suitable to eastern conditions. In Africa the Reserve Bank, after its formation, found itself unable to control the credit policy of the country, by pursuing an open market policy in the discounting of bills, for the simple reason that an open market did not come into being. The volume of trade bills available was insufficient, because, firstly, the existing practices could not be changed very soon, and secondly, the other banks did not make use of the Reserve Bank.

Similar Difficulties in India. It may well be feared that the Reserve Bank of India, when and if it comes into being, will be faced with some of the same kind of difficulties which beset the Reserve Bank of Africa. Unlike Africa, it is true, India has known the use of *hundis* for centuries past, but, like Africa, in India the trade bills are not available to the modern banks in sufficient quantities for purposes of discount or re-discount. This, as we saw in a previous chapter, is because, in the first place, the indigenous bankers do not discount their customers' *hundis* with the joint-stock banks except when there is a great demand for accommodation and their own resources run out and, in the second place, because the joint-stock banks do not deem it safe to purchase bills

direct from the small traders, without the indigenous bankers' endorsement, because such bills are not accompanied by any titles to or evidence of goods and only carry with them the personal security of the small traders. Above all, a fact which is often not realised, but has been already brought out in a previous chapter, most of the financing of agricultural industry and internal trade in India is done by means of silver currency and notes rather than by bills. It is not easy to see how, by the mere creation of the new Reserve Bank, these conditions will so change as to provide bills in appreciably larger numbers.

The Currency Commission, not unmindful of such difficulties, has specifically recommended the abolition of stamp duties on the bills of exchange, with a view to encouraging their use. The suggestion has been accepted by the Government in regard to cheques, and it may be hoped that this will tend to stimulate their popularity and increase their currency.

If special efforts, like the abolition of present stamp duties on *hundis*, are made, the time-honoured method of financing industrial enterprises by the cash credit may be replaced by bills, but we share with Mr. M. M. S. Gubbay, General Manager, P. & O. Banking Corporation, Ltd., Ex-Controller of Currency and Financial Secretary of the Government of India, the opinion to which he gave expression in his paper on 'Indian Indigenous Banking,' that the change will be slow.

'Even assuming that the change comes about rapidly,' Mr. Gubbay has well put it, 'we shall still be left with the position that there will be lying beyond the influence and reach of the central authority a very considerable, perhaps a preponderatingly large amount of financial and commercial transactions which, in the hands of bazaar dealers in credit, will be only indirectly responsive to the bank rate policy.'[1]

[1] See Mr. Gubbay's paper published in the *Journal of the Royal Society of Arts*, 2nd December, 1927, p. 64.

The problem of the future of indigenous banking may now be re-stated in the following form. How should the indigenous bankers and money-lenders be linked to the Indian joint-stock banks through the development of an indigenous bill market that both may respond to the policy of a Central Bank ?

3. SUGGESTED SOLUTIONS.

Increasing Contact of Indigenous Bankers with Bank Branches. Now it is suggested by some eminent authorities on Indian and Central Banking, among which mention may be made of Sir Henry Strakosch, that the best way to secure the growth of a co-ordinated credit system in India is to do three things. Firstly, establish the new Reserve Bank, secondly, establish a strong link between the joint-stock banks and the Reserve Bank, and thirdly, establish a close contact between the indigenous bankers and the joint-stock banks by developing the functions of the endorsing *shroff*.[1] It is easy to do the first two ; it is with the third that we are most concerned.

In order that the indigenous bankers and money-lenders may be brought into such close touch with the joint-stock banks as to be susceptible to the central bank rates, three things seem to be essential. In the first place, either the joint-stock banks must spread their branches all over the country in order to facilitate contact with the indigenous agencies, or the latter should be so organized as to form an effective link between the village constituents and the joint-stock banks. In the second place, cash must give way to bills in the financial and commercial operations in the country. In the third place, the indigenous bankers and money-lenders must change their existing practice and perform the same functions in the Indian money-market as are rendered by

[1] See Sir Henry's presidential remarks on Mr. Gubbay's paper, *Journal of the Royal Society of Arts*, 2nd December, 1927, pp. 70-74.

the money and discount broker in the London money-market.

As regards the first requirement, namely, that the joint-stock banks should extend their activities into the interior of the country, it will be remembered that their present position is such as to force on them the necessity of consolidating the existing ground before embarking on any extension. We are, under the circumstances, left with the other alternative of re-organizing the indigenous bankers and money-lenders. To this we shall return presently.

Taking the second point that the bills must replace cash in financial and commercial transactions, this is no easy task and can only be achieved by labour and time and a changed outlook on the part of the indigenous agency.

Coming to the third essential, it presupposes, on the one hand, a new conception of his functions by the indigenous banker and, on the other, a liberal policy on the part of the joint-stock banks and the Reserve Bank.

The present attitude of the indigenous bankers towards re-discounting may well be compared to that of the country bankers in America, before the war.

'In our section of the country we are born and bred with an antipathy to re-discounting. It is the last thing that banks up our way want to do, and we have not done it nor attempted to do it since 1893, not once. We regard it as a signal of weakness, as a flag of distress, and would not resort to it except as a last resort. But of course, under this proposed measure, if it becomes the fashion and is the custom adopted here, I imagine that the banks will fall into it, although it is something that the conservative bank will hesitate a long time about doing—borrowing money and endorsing everybody's note to hire money to lend somebody else.' [1]

[1] Statement of N. F. Bonfield, Vice-President, First National Bank, Austin, Minn., Hearings before the *Committee on Banking and Currency*, United States Senate, 63rd Congress, 1st Session, Senate Document, 1913, No. 232, vol. ii. p. 2462.

As Sir Henry Strakosch rightly pointed out in his presidential remarks on Mr. Gubbay's paper to which reference has already been made, the change of practice in America came about in a wonderfully short time. This is clearly brought out by the following figures [1]:

VOLUME DURING THE MONTH.

Millions.

	Sept. 1915.	Sept. 1916.	Sept. 1917.
Bills Discounted (Bills discounted for Member Banks) -	14	14	548
Bills Bought in Open Market (Bankers' and trade acceptances) -	5	37	109
	19	51	657

From this, however, it does not necessarily follow that progress in India, consequent upon the establishment of the proposed Reserve Bank, will be as rapid as it was in America after the institution of the Federal Reserve system. For one thing, as Sir Henry Strakosch himself remarked, 'America entered the war in 1917, and that might have a good deal to do with the sudden increase of bills discounted, bought in that year.' [2] Besides it must not be forgotten that in 1913 there were in America approximately 30,000 [3] independent banking institutions of all kinds, while the corresponding figure for joint-stock banks in India for 1926 is a little over 600 establishments. The indigenous bankers, on our showing, do not stand on the same footing as the pre-war country bankers of America, even though they resemble them in their attitude towards re-discounting of bills.

[1] *Journal of the Royal Society of Arts*, 2nd December, 1927, p. 72.

[2] *Ibid.* p. 73.

[3] *The ABC of the Federal Reserve System*, by E. W. Kemmerer, Princeton, 1926, p. 3.

The weight of all the foregoing considerations forces us to the conclusion that the degree of control of the whole credit fabric by the central bank must depend upon the extent to which the indigenous bankers can be re-organized and linked to the joint-stock banks. In their education, consolidation and re-organization must therefore lie the hope of a successful banking structure for India and it is with such banking foundation that the prosperity of the country is indissolubly linked. So the problem is one of national importance having far-reaching consequences.

Danger of the Indigenous Bankers being Squeezed Out. We must, however, guard against the possible danger of some of the indigenous bankers and money-lenders being squeezed out, as a result of the growing expansion of such agencies as the co-operative societies and the joint-stock banks. Nothing could demonstrate the truth of this statement more clearly than the banking history of the great trading nations of the world during the last two or three centuries.

The slow but sure disappearance of many indigenous money-lenders will be unfortunate in India, as it will involve the loss of a wealth of invaluable knowledge of local conditions, personal contact and relationships, extending over centuries, and of ancient banking methods and practices which if retained and judicially mixed with modern up-to-date developments should be a source of great strength and solidarity to the Indian banking system.

The belief that the indigenous agency, which has rendered yeoman service in the past, is capable of playing a much more important part in the future and of accelerating the progress in Indian banking which everyone desires has led us to make the following tentative proposals in regard to the manner in which the indigenous bankers and money-lenders may be revitalised and re-organized.

New Indigenous Banks. The scheme of the indigenous bankers' re-organization is quite simple in its theory. All

that is necessary is that in every village and small town the indigenous money-lenders and bankers may combine themselves on the joint-stock principles, thus pooling their capital resources and forming themselves into indigenous joint-stock banks. The indigenous money-lenders and bankers, it is expected, will act as the directors and paid employees of the bank, besides earning dividends on their shares and interest on their deposits, if any.

Functions of New Indigenous Banks. A new indigenous bank, as contemplated in the preceding paragraph, will perform the same general functions as belong to a modern joint-stock bank, viz., receiving deposits, making loans and discounting bills of exchange.

It will therefore be a proper banking institution rather than a mere money-lending agency and, in this respect, it will be a distinct advance over the existing indigenous agency from which it will have been evolved. In banking combinations lie strength and economy, and strength and economy inspire confidence and goodwill which is the foundation of the whole fabric of a sound credit edifice.

Hoards as Deposits. It is not idle to expect that with sound working, and through the demonstration of modern banking facilities and their advantages, such a bank should prove a potent factor in tending to create the much-talked-of and much-needed banking habits among the people. The villagers will feel that it is not unsafe to entrust their savings to an institution which they can see with their own eyes, and which they know is composed of their prominent and well-meaning neighbours whom they have known all their lives. And when they once realise that deposits in a bank mean not only safety but also prosperity, it will be the dawn of a new era in which dormant hoards will slowly begin to be synonymous with bank deposits.

The more the bank succeeds in making these hoards available as its working capital, the greater will be the measure

of its usefulness in the area of its activities, and the more useful it proves to be, the better will it be able to attract not only more and more of these hoards, but also new savings which it will tend to encourage. One good will thus lead to another and a virtuous circle will take the place of a vicious one.

This mobilisation of the dormant capital resources of the country for the development of the rural areas through the proposed indigenous banks will, in itself, be a service of inestimable value. But there are besides other immense possibilities.

Loans. The increasing resources of such an indigenous bank with the consequent expansion of its business will enable it to lend out funds on reasonable terms in place of the present extortionate rates of interest. Some business of an unproductive nature it will find itself unable to undertake, consistent with prudence, but, for that very reason, it will discriminate between productive loans, on the one hand, and unproductive, on the other, between provident people, on the one hand, and the spendthrift, on the other. Such a discrimination will naturally place a premium on the habits of thrift, self-help and labour, and give a great impetus to their cultivation. This will of course be an asset of considerable value in the economic reconstruction of rural India.

Creation of Indigenous Paper. The most important of all the probable developments in consequence of the formation of the new indigenous banks will, however, be the creation of small indigenous paper which they will readily discount. As is the general practice of joint-stock banks in rural areas in Canada and elswehere, the new indigenous banks in India will soon find it best to invest their funds in agricultural or commercial paper drawn against commodities, either in process of production, or in the course of transfer from the producer to the consumer. The indigenous banks will there-

fore take steps to encourage the creation of agricultural paper for the purpose of financing the agricultural crops as well as for the purpose of moving them. Similarly they will finance the cottage industries by discounting *hundis* drawn against the commodities under production, rather than by granting cash credits. With such agricultural and commercial paper the new indigenous banks will be best qualified to deal, in view of their special knowledge of the local conditions and the financial standing of their constituents.

Technical Objection. A technical objection which may be raised against the formation of the new indigenous banks may now be anticipated. It may probably be urged that they will enter into competition with the existing banking agencies and thereby adversely affect the growth of banking in India. If this should happen, the scheme, whatever attractions it might otherwise possess, cannot commend itself for a moment.

In order to examine the validity of the above objection, let us first enumerate the existing banking agencies. They are the indigenous bankers and money-lenders, the co-operative credit societies, the joint-stock banks and the Imperial Bank of India. Let us now take these one by one and see how the new indigenous banks will affect them and what will be the net effect on the progress of banking in India.

New Indigenous Banks and the Surviving Bankers. In so far as the effect of the new indigenous banks on the surviving indigenous bankers and money-lenders is concerned, two things might happen. In the first place, some of the remaining indigenous bankers and money-lenders may be led to amalgamate their business with the new institutions either because of better prospects, or through inability to stand the force of competition, or as a result of both these causes. In the second place, some of the indigenous bankers and money-lenders may be driven to the necessity of confining them-

selves largely to business which the new banks would not attempt to touch, viz., to advance funds to the spendthrift for unproductive purposes. In so far as the remaining indigenous bankers and money-lenders amalgamate with the new institutions, they will strengthen the new banks by bringing to them more resources and more business and will help their provident constituents by enabling them to get better service on favourable terms. Some of their improvident customers will therefore be forced either to improve their lot or to seek accommodation from the surviving money-lenders. In so far as the new indigenous banks cause the remaining indigenous bankers and money-lenders to restrict their business to that of a mere money-lender or pawn-broker, no remedy can be suggested, nor does it much matter. In no country is the tribe of money-lenders extinct, but their dubious business is certain to become less and less with the increasing prosperity of the people which the indigenous banks will bring in their wake. The new indigenous banks cannot therefore be condemned because of their probable effect on the surviving indigenous bankers and money-lenders.

New Indigenous Banks and Co-operative Credit Societies. Next we must consider the effect of the new indigenous banks on the co-operative credit societies. Now it has been already pointed out in the last chapter that there is a wide field for credit activities in rural India, that this field is increasing and must increase at an accelerated pace and that the co-operative credit societies, in spite of their progress, do not yet cover even half of this field. There is therefore ample scope for other credit agencies to function, provided their interests do not clash.

In fact, the proposed indigenous banks, formed as they will be by the amalgamation of some of the indigenous bankers and money-lenders, will take the place of an existing agency whose existence, at present, is a hindrance to the

progress of the co-operative societies. For the indigenous banks, it will be to their interest to derive advantage from the existence and progress of the co-operaitve credit societies by discounting indigenous paper which the latter might endorse. Such paper will naturally be welcomed by the indigenous joint-stock banks, as it will give greater security to their business ; while the co-operative credit societies, in their turn, will have a ready market at hand in which to turn into liquid resources the thrift and honesty of their members. So the two will be a source of strength rather than of weakness to one another.

New Indigenous Banks and Indian Joint-stock Banks. Now we come to consider how the proposed indigenous banks will affect the existing Indian joint-stock banks. The proposal that the new indigenous banks should be first started in villages and small towns where Indian joint-stock banks do not exist at present must remove all misapprehension in regard to the possibility of any hurtful competition arising between the two. In fact, the new institutions will come into being in rural areas, which, as our analysis has disclosed, do not offer fertile soil for the latter to plant their branches under the present economic conditions. We might repeat that the immediate question before the Indian joint-stock banks is the consolidation of their present position rather than the extension of their business into new areas. To this end, the new indigenous banks will be a help, in so far as they succeed in drawing the capital resources of the country into the domain of banking and in creating in the people the desire to deposit in place of their eagerness to borrow.

The new indigenous banks will thus be able to render useful service in the expansion of sound banking in the rural areas for which the present Indian joint-stock banks are not competent and are not likely to be for some time to come. To the extent that the new banks are formed, they will add

to the number and resources of the joint-stock banks in the country and remove the reproach which, at present, attaches to them in India.

But perhaps the greatest service of the new indigenous banks to the Indian joint-stock banks will lie in the creation of an increasing quantity of indigenous paper which the former will readily discount and the latter will re-discount. So that, on the one hand, the indigenous banks will always be able to turn their bills into liquid resources for meeting any demands of their customers on them, and on the other hand, the joint-stock banks will have the proper means available for investing their funds in conformity with modern banking principles and practice.

New Indigenous Banks and Imperial Bank of India. This brings us to the question of the relationship of the new indigenous banks to the Imperial Bank of India. The latter, it will be remembered, occupies at present a strange position in the Indian money-market. It is neither a central bank of the orthodox type, nor an ordinary joint-stock bank. According to the recommendations of the Hilton Young Commission, a new Reserve Bank is proposed to be established and the Imperial Bank will then be free to function as a commercial bank. The proposed indigenous banks can be an instrument of great value in making central banking policy effective by providing an open market in indigenous bills for the central bank to operate upon. The central bank, in its turn, will thus be able to function as the bankers' bank and assist the indigenous banks by giving to them confidence that their endorsed paper can be turned into ready cash in unlimited quantities. If this happens, the indigenous banks will have provided the most important missing link between the modern money-market and the indigenous money-market through the development of an open discount market. And this is the goal towards which we are all striving.

Practical Objection. The technical objection to the formation of new indigenous banks, therefore, seems to be untenable. But we have yet to meet a formidable objection from the practical point of view. It may be urged against the scheme that although sound in theory, it is a fiasco in practice. To begin with, who is to take the initiative in the promotion of the proposed banks? The Government or the public?

The answer is that the initiative must undoubtedly come from the public, and certainly not from the Government. There is perhaps no industry in the case of which nationalisation seems more inappropriate than that of banking. One of the main causes why the co-operative societies have not made such good progress in India as they have done in other countries seems to be the large part which the Government have played in originating and running the movement in India. Of course, in the existing economic conditions of the country, this was inevitable. But in the building-up joint-stock banking in rural India, the initiative and support must, in the first instance, come from the public.

How are the public to respond to such a proposal, when there is only 13 per cent. male literacy in the country? This is another consideration which might well occur to a critic. The answer is that this illiteracy must be fought, as was suggested in the last chapter. But even at present, the people who are asked to form the new indigenous banks are the indigenous bankers and the money-lenders. Few of them have received English education, but it is known that they are far from illiterate. They are well versed in the old banking methods and are shrewd enough to be able to learn new methods.

Indigenous Bankers not Conservative. But it may be said that the indigenous bankers are so conservative in their outlook that they will simply not look at the suggestion. This kind of criticism does not do full justice to the indi-

genous bankers, who have often given evidence of their adaptability to new methods or conditions, if only they can be made to realise that that way lies their self-interest. For instance, we saw, in the sixth chapter, how in the nineteenth century, when some new joint-stock banks offered cheap facilities for transfering funds from one trade centre to another, the indigenous bankers were not slow to take advantage of them. In the same chapter, we saw also how more recently, in our own times, both the traders and the indigenous bankers and the money-lenders have been taking increasing advantage of the remittance facilities afforded by the Government through the Currency and by the Imperial Bank since its inauguration in 1921. There is nothing more respected in India than a religious injunction, but, as we have noticed in the case of the Punjab Mahomedans, in spite of the acceptance of interest being forbidden to them by their religion, they are now taking to the business of money-lending, being driven to it by purely economic forces. Admitting that it is possible to persuade the indigenous bankers to combine in order to save themselves, who must do the persuading ?, The answer is that the banking experts, and the captains of industry, on the one hand, and the increasing number of under-graduates and graduates, on the other.

If the proposals are accepted in the original or a modified form by the banking experts of the country, it will be their duty to give the right lead by earnest propaganda through the vernacular press and in the villages.

The new indigenous banks will also provide a new opening to the many graduates and under-graduates who are being produced every year by the Indian universities, and will thus go some way in solving the problem of unemployment among the educated. This might open a career of usefulness also to some of the Indian young men who come abroad for higher studies and who return home only to find that the Government posts are limited.

Thus the indigenous bankers in the new indigenous banks are assured of playing a most important role in the national life of the country. If progress is made along the lines indicated, we may look forward to the day when not only every town, but every village in India will have its own joint-stock bank, which would perhaps be a branch of the bigger joint-stock bank in a principal town. The big joint-stock banks may not be many in number, but their total resources would compare with those of the principal banks of any other country and they would be working under the aegis of a central bank. The central bank will not be an isolated institution of the country, but will be working in unison with the central banks of other countries for the common weal and welfare of the whole world.

This inquiry may well be concluded with a warning and a hope. It is true that the indigenous banking of India has its roots in the ancient past, the good old days of which we are all truly proud. Let us, however, not be obsessed by the remembrance of our past greatness. Dreams of the past golden age are beautiful, but of no avail except in so far as they inspire us to action. We cannot live in the past. There is the present and the future. What is required is sound constructive work keeping pace with the march of progress. With the increasing earnestness of the public workers, the growing spread of education—using the word in its broadest sense—and of intelligence amongst the masses of the people in Indian villages, the growing network of modern credit institutions and credit facilities and the growing share of the indigenous banks in this movement, will widen the scope of co-operation, leading to the establishment of a sound banking system such as will bring prosperity and wealth to the peoples of India.

APPENDIX I

STATISTICS

Number of Bankers, Money-Lenders and their Employés in 1921

	Total Workers and Dependants.	Actual Workers.		Population.	Actual Workers per 10,000 of Total Population.
		Males.	Females.		
India - - -	993,492	289,665	54,470	318,942,480	11
Provinces - -	699,009	208,174	37,499	247,003,293	10
Ajmer Marwara -	5,949	1,920	122	495,271	4
Assam - - -	4,717	1,573	342	7,606,230	2
Baluchistan - -	908	224	—	420,648	5
Bengal - - -	153,044	46,110	4,010	46,695,536	11
Behar and Orissa	39,235	12,762	2,345	34,002,189	4
Bombay - - -	72,709	23,523	2,847	19,348,219	14
Burma - - -	22,210	8,706	2,909	13,212,192	9
Central Provinces and Berar - -	35,623	11,243	3,346	13,912,760	10
Coorg - - -	204	96	16	163,838	7
Delhi - - -	5,474	1,197	108	488,188	26
Madras - - -	103,924	30,101	9,962	42,318,985	10
North-West Frontier Province - -	4,309	1,698	4	2,251,340	7
Punjab - - -	138,015	35,043	3,089	20,685,024	18
United Provinces -	112,686	33,987	8,399	45,375,787	9

NUMBER OF BANKERS, MONEY-LENDERS AND THEIR EMPLOYÉS IN 1921—*Continued.*

	Total Workers and Dependants.	Actual Workers.		Population.	Actual Workers per 10,000 of Total Population.
		Males.	Females.		
States and Agencies :					
Assam State (Manipur) - - -	5	5	—	384,016	·1
Baluchistan States	274	89	—	378,927	2
Baroda State -	15,751	3,852	1,244	2,126,522	24
Bengal States -	2,067	1,002	37	896,926	11
Behar and Orissa States - -	2,154	801	164	3,959,669	2
Bombay States -	51,318	12,172	3,013	7,409,429	20
Central (India (Agency) - -	21,616	6,799	1,297	5,997,023	13
Central Provinces States - -	1,691	558	238	2,066,900	4
Gwalior States -	15,660	4,863	1,101	3,186,075	19
Hyderabad State -	21,891	6,698	2,625	12,471,770	7
Kashmir State -	2,890	654	45	3,320,518	2
Madras States -	25,059	5,858	2,327	5,460,312	15
Mysore State -	9,629	2,284	573	5,978,892	5
North West Frontier Province (Agencies and Tributaries) -	—	—	—	2,825,136	7
Punjab States -	23,471	5,773	598	4,416,036	14
Rajputana (Agency)	99,733	29,450	4,630	9,844,384	34
United Provinces States - -	1,274	633	79	1,134,881	6

RATES OF INTEREST CHARGED BY THE CO-OPERATIVE CREDIT SOCIETIES IN THE VARIOUS PROVINCES, 1925-26

	On Borrowings.		On Lendings.	
	Agricultural Societies.	Non-agricultural Societies.	Agricultural Societies.	Non-agricultural Societies.
British India :				
Madras	7½ to 8½	6¼ to 8	9⅜ to 10 15/16	9⅜ to 12½
Bombay	6¼	6¼	9⅜	9⅜ and 12½
Bengal	9⅜ and 10 15/16	9⅜ and 10 15/16	15⅝	12½ and 15⅝
Behar and Orissa	12½	12½	15⅝	12½ and 15⅝
United Provinces	12	9	15	15
Punjab	9	8 and 8½	12½	12½
Burma	10	—	15	—
Central Provinces and Berar	10	10	12 and 15	12
Assam [1]	10½	6¼	15⅝	9 and 12½
North-West Frontier Province	8	—	12½	9 and 12½
Coorg	6¼ and 8¼	6¼ and 8¼	12½	12½
Ajmer Marwara	9	9	12	12
Delhi	9	9	12½	12½
Indian States :				
Mysore	9*	9	9 to 12*	9 to 12
Baroda	6 to 7½	4 to 7½	9⅜	6¼ and 9⅜
Hyderabad	9	9	12½	12
Bhopal	9	—	12	—
Gwalior	12	12*	15	15*
Indore	9	6	12 to 15	6
Kashmir	9	9	12½	12½
Travancore	8¾	7½ to 8¾	10½	10½
Cochin	6 to 9	6 to 9	9⅜ to 12½	9⅜ to 12½

(N.B. 1. Figures marked * are for 1924-25, later figures being not available.

2. The above tables are compiled from *Statements showing the Progress of the Co-operative Movement in India during the year 1925-26*).

[1] (The figures of Assam are for 1924-25.)

RATES OF INTEREST CHARGED BY AN INDIGENOUS BANKING FIRM, 1867-1927

Samvata (Hindu Era). 1.	Year. 2.	Pro-Note. 3.	Bond. 4.	Mortgage of House 5.	Mortgage of Landed Property. 6.	After the Decree. 7.	Ornaments. 8.	Miscellaneous (Verbal etc.). 9.	Bankers' Rate. 10.	Hundi. 11.
1923-30	1867-74	6, $7\frac{1}{2}$, 9, 12	$7\frac{1}{2}$, 9, 18	12	9	6, 9, 12	6 to $7\frac{1}{2}$	6 to $7\frac{1}{2}$	$4\frac{1}{2}$ to 6	6 to 9
1931	1875	,,	,,	,,	,,	,,	,,	,,	,,	,,
1932	1876	,,	,,	,,	,,	,,	,,	,,	,,	,,
1933	1877	,,	,,	,,	,,	,,	,,	,,	$5\frac{13}{16}$	,,
1934	1878	,,	,,	,,	,,	,,	,,	,,	,,	,,
1935	1879	,,	,,	,,	,,	,,	,,	,,	,,	,,
1936	1880	,,	,,	,,	,,	,,	,,	,,	,,	$6\frac{3}{4}$ to $7\frac{1}{2}$
1937	1881	,,	,,	,,	,,	,,	,,	,,	,,	,,
1938	1882	,,	,,	,,	,,	,,	,,	,,	,,	,,
1939	1883	,,	,,	,,	,,	,,	,,	,,	,,	,,
1940	1884	,,	,,	,,	,,	,,	,,	,,	,,	,,
1941	1885	,,	,,	,,	,,	,,	9	,,	,,	,,
1942	1886	,,	,,	,,	,,	,,	,,	,,	,,	,,
1943	1887	,,	,,	,,	,,	,,	,,	,,	,,	,,
1944	1888	,,	,,	,,	,,	,,	,,	,,	,,	,,
1945	1889	,,	,,	,,	,,	,,	,,	,,	,,	,,
1946	1890	,,	,,	,,	,,	,,	6, $7\frac{1}{2}$, 9	,,	,,	9
1947	1891	,,	,,	,,	,,	,,	,,	,,	,,	,,
1948	1892	,,	,,	,,	,,	,,	,,	,,	,,	,,
1949	1893	,,	,,	,,	,,	,,	6, $7\frac{1}{2}$	,,	,,	,,
1950,	1894	,,	,,	,,	,,	,,	,,	,,	,,	,,
1951	1895	,,	,,	,,	,,	,,	$7\frac{1}{2}$, 12	,,	,,	,,
1952	1896	,,	,,	,,	,,	,,	,,	,,	,,	,,
1953	1897	12, 18	,,	,,	,,	,,	,,	,,	,,	,,
1954	1898	,,	,,	,,	,,	,,	,,	,,	,,	,,
1955	1899	6, 12, 18	,,	9, 12	9, 12	,,	,,	,,	,,	,,

Samvata (Hindu Era). 1.	Year. 2.	Pro-Note. 3.	Bond. 4.	Mortgage of House. 5.	Mortgage of Landed Property. 6.	After the Decree. 7.	Ornaments. 8.	Miscellaneous (Verbal etc.). 9.	Bankers' Rate. 10.	Hundi. 11.
1956	1900	6, 12, 18	$7\frac{1}{2}$, 9, 18	9, 12	9, 12	6, 9, 12	$7\frac{1}{2}$, $10\frac{1}{2}$,12	6 to $7\frac{1}{2}$	$5\frac{13}{16}$	9
1957	1901	,,	,,	12, 15, 9	,,	,,	,,	,,	,,	,,
1958	1902	9, 12, 18	,,	,,	,,	,,	,,	,,	,,	$6\frac{3}{4}$
1959	1903	,,	,,	$10\frac{1}{2}$, 15	$7\frac{1}{2}$,9,$10\frac{1}{2}$12	,,	,,	$7\frac{1}{2}$	,,	,,
1960	1904	,,	,,	12, 9	,,	,,	6, $7\frac{1}{2}$, $10\frac{1}{2}$	12, 9	,,	$5\frac{13}{16}$
1961	1905	,,	,,	,,	,,	,,	,,	12, $7\frac{1}{2}$	,,	,,
1962	1906	,,	,,	,,	,,	9, 12	,,	,,	,,	,,
1963	1907	,,	,,	,,	$7\frac{1}{2}$, 9, 12	$7\frac{1}{2}$, 9, 12	12	,,	,,	,,
1964	1908	,,	,,	,,	,,	,,	,,	,,	,,	,,
1965	1909	,,	,,	,,	,,	,,	,,	,,	,,	,,
1966	1910	6, 12	,,	12, 18	$7\frac{1}{2}$, $8\frac{1}{4}$, $10\frac{1}{2}$	,,	6, $7\frac{1}{2}$, 9	9, 12	$5\frac{13}{16}$, 6	,,
1967	1911	6, $7\frac{1}{2}$, 12	,,	9, 12, 18	,,	,,	$5\frac{13}{16}$, 9	,,	,,	,,
1968	1912	6, 9, 12	,,	9, 12	,,	,,	6, 9	,,	,,	,,
1969	1913	,,	,,	,,	,,	,,	6, 9, $5\frac{13}{16}$	,,	,,	,,
1970	1914	,,	,,	,,	,,	,,	,,	,,	,,	,,
1971	1915	,,	,,	,,	,,	,,	,,	,,	,,	,,
1972	1916	,,	,,	,,	,,	,,	,,	,,	,,	,,
1973	1917	6, $6\frac{3}{4}$, $7\frac{1}{2}$	,,	,,	,,	,,	6, 9	,,	,,	,,
1974	1918	,,	,,	,,	,,	,,	6, $7\frac{1}{2}$, 9	,,	,,	,,
1975	1919	,,	,,	,,	6, 9, $10\frac{1}{2}$	,,	$7\frac{1}{2}$, $8\frac{1}{4}$, 9	,,	,,	,,
1976	1920	,,	,,	,,	6, $7\frac{1}{2}$, 9	,,	6, $8\frac{1}{4}$, 12	,,	,,	,,
1977	1921	,,	,,	,,	,,	,,	$7\frac{1}{2}$, 9, 12	,,	,,	,,
1978	1922	,,	,,	,,	6, $8\frac{1}{4}$	,,	,,	,,	,,	,,
1979	1923	,,	,,	,,	,,	,,	,,	,,	,,	,,
1980	1924	,,	,,	,,	,,	,,	,,	,,	,,	,,
1981	1925	,,	,,	,,	,,	,,	,,	,,	,,	,,
1982	1926	,,	,,	,,	,,	,,	,,	,,	,,	,,
1983	1927	,,	,,	,,	,,	,,	,,	,,	,,	,,

APPENDIX II

ECONOMICS DEPARTMENT,
UNIVERSITY OF ALLAHABAD,
Dated the 9th March, 1926.

DEAR SIR,

I hope you will be good enough to pardon the liberty I am taking in addressing the accompanying *Questionnaire* on '*Indian Indigenous Banking*' to you.

I am making a special study of this subject and am very shortly proceeding to England to complete my work under the direction of the Professors of the London School of Economics and am therefore seeking for help and assistance, in order to make as comprehensive a survey of the problem as my limited time and energies would permit me.

I am inspired to seek for your help and guidance, because I feel that the knowledge and experience at your disposal would be invaluable to me in my study. I need hardly say that I shall be deeply grateful for any assistance that you may be pleased to render me.

I am conscious that I am making a very big demand on your time and energies, and so I would request you to help me in any part of the *questionnaire* that you can, without putting yourself to much labour or inconvenience.

I may assure you that the source of the information you are good enough to supply will not be given out without your express permission. I will also treat as strictly confidential any information you may desire to give me on that condition, and it will not be published.

I shall be obliged if you could kindly send me a reply at your earliest convenience as I hope to be leaving India by the end of April.

Yours truly,

Lecturer in Currency & Banking and Statistics,
University of Allahabad.

QUESTIONNAIRE

INDIGENOUS BANKING IN INDIA.

N.B.—Kindly note the use of the following terms which will be observed throughout the Questionnaire.

A *banker* means any individual or private firm which either receives deposits or deals in *hundis* or both.

A *money-lender* means any individual or private firm which lends, but does not usually receive deposits or deal in *hundis*.

Indigenous Banking includes all the ordinary transactions of private bankers and money-lenders in India, but excludes the operations of Joint Stock Banks and Co-operative Credit Societies.

PART I.

1. What are the functions of a money-lender or banker in your part of the country? Enumerate all the kinds of business which he transacts.

2. How and to what extent does a money-lender or banker of your region assist in financing the following:

(1) industries, (*a*) factory, (*b*) cottage;
(2) agriculture;
(3) internal trade;
(4) external trade.

3. Describe the organization of the money-lenders and bankers of your region with regard to (*a*) the size of their business; (*b*) the inter-connection, if any, of one unit or house with other units, houses or banks, agents or correspondents within the country or outside; (*c*) the extent of such connections and (*d*) their business relations with Joint-stock Banks or Co-operative Credit Societies.

4. State and describe the various methods of an indigenous banker in (*a*) granting loans, (*b*) allowing cash credits, (*c*) receiving deposits on interest, (*d*) transferring money from one place or person to another (use of cheques or notes or hundis—drawing, discounting and accepting, etc.), and the extent of the use of each in the town and district separately. Give reasons, if possible, for these differences in the use of different credit instruments.

5. What are the various forms of hundis used?

6. What place does the hundi take in the modern money-market, especially in Indian States?

7. What are the special features of agricultural loans? What

are the rates of interest in the case of such loans? Are there any Co-operative Credit Societies in your town or district?

8. What are the conditions and causes of indebtedness in your town and district? For what purposes are the loans asked? Who are the usual borrowers?

9. What are the various rates and forms of interest prevailing in your town and district for other than agricultural loans on different kinds of securities—movable or immovable? Explain the nature of these securities.

10. Could you kindly procure a series of rates of interest kept monthly or yearly going back for as many years as possible? In giving such rates of interest, please state the nature of securities to which a particular series relates.

11. What were the minimum and maximum rates between which interest fluctuated in accordance with the nature of security during 1924 and 1925? What are the causes of the difference?

12. Are the rates of interest subject to seasonal fluctuations. If so, in what manner and why? If possible, please give a table of fluctuations.

13. Is there any relation between the private rate of interest and the rate of the Imperial Bank of India? How does the one influence the other?

14. Beside the interest, do the debtors have to pay something as a present (नज़राना), थैली का मुंह खुलाई etc.? Please enumerate and explain all these kinds of petty payments with their respective amounts.

PART II.

15. What are the castes of the persons engaged in indigenous banking in your town and district? Have they any special local trade names and do they form a class or caste of their own?

16. Name the principal private banking houses, if any, in your locality. For how many years and generations have they uninterruptedly continued?

17. Is it a fact that very few Mahomedans are bankers and that they do not usually take or give interest on deposits and loans?

18. Are your bankers exclusively devoted to the business of banking? If not, what other businesses do they combine with

it? Are these primary or secondary? Are there many who devote their time entirely to banking or money-lending?

19. Could you possibly supply some statistics relating to the amount of capital invested in indigenous banking by individuals or firms in your region?

20. Would you kindly procure sample copies of any written documents or deeds used in connection with indigenous banking in your locality such as hundis, promissory notes, receipts for deposits, etc.? Please explain the terms and abbreviations used, if you think necessary.

21. Are there any transactions in which written documents are not used, but verbal statements have the force of contracts? If so, could you kindly write out the statements usually made? Is this generally done in the presence of one or more witnesses?

22. Describe the indigenous system of keeping accounts and calculating interest. State any special points of merit or defects in the system.

23. Do you know of any secret trade language, proverbs and anecdotes concerning indigenous bankers which may be of interest?

24. Have you noticed any changes or modification in the indigenous system of banking due to (*a*) English system of banking, (*b*) modern methods of commerce, or (*c*) any other cause?

25. In what manner have the changes referred to in Q. 24 affected the position of the indigenous banking system in India? Could you suggest ways in which it could be improved, organized and consolidated?

26. Please suggest the sources of information on the subject of indigenous banking in India such as manuscripts, books, pamphlets, articles in any language and names of persons who are likely to possess special knowledge of the subject.

27. Any other suggestions or information that you may be pleased to offer will be gratefully appreciated.

APPENDIX III

List of those who responded to the Questionnaire.

1. Director of Industries, Government of *Central Provinces.*
2. Sirdar M. V. Kibe Bahadur, Deputy Prime Minister, *Indore State.*
3. Secretary, Development Department, Government of *Mysore.*
4. Manager, Dawson Bank Ltd., Pyapon, *Burma.*
5. Secretary and Manager, The Bombay Shroffs' Association, *Bombay.*
6. Prof. Hira Lal Jain, King Edward College, Amraoti, *Central Provinces.*
7. Jamna Prasad Jain, Esq., Income-Tax Officer, Jubbalpore, *Central Provinces.*
8. Seth Tara Chandji Barjatya, Banker, Khandwa, *C.P.*
9. Seth Ganeshi Lalji, Head Munim of the Firm of Sir Sarup Chandji Hukam Chandji, Bankers, Indore, *C.I.*
10. Shil Chandra Jain, Esq., Indore, *C.I.*
11. Jagan Nath, Esq., Auditor, *Delhi and United Provinces.*
12. Balmukand Jain, Esq., Head Master, Jaina High School, Panipat, *The Punjab.*
13. L. Balwant Rai Jain, Banker, Lahore, *The Punjab.*
14. K. M. Banthia, Esq., Ajmer, *Rajputana.*
15. L. Kailash Chandra Jain, Banker, Allahabad, *United Provinces.*
16. Ram Din Vaish, Esq., Vakil, Bijnor, *U.P.*
17. Kamta Prasad Jain, Esq., Military Banker, Etah, *U.P.*
18. Ram Narayan Gupta, Esq., Advocate, Etawah.

19. M. I. R. Khan, Esq., Pilibhit, *U.P.*

20. Bhagwan Das, Esq., Head Master, Govt. High School, Lalitpur, *U.P.*

21. L. Uttam Chand Jain, Zamindar and Banker, Meerut, *U.P.*

The following students of my B.A. (Economics) class, University of Allahabad, 1925-26 :

22. Mr. Ram Chandra Agrawala, Banker, Allahabad, *U.P.*

23. Mr. Bishan Narayan Nigam, Cawnpore, *U.P.*

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GLOSSARY OF INDIGENOUS TERMS[1]

(*References are to pages.*)

Abwab (cess), 106.
Adavi (security), 40.
Adhanni (half-anna), 94.
Arat (brokerage), 53.
Aratia (agent, broker), 53, 68.
Asami (customer), 62.

Bahi (account-book), 60, 68, 83, 108, 109.
Banaj (same as *vanijya*, also *Kist*), 62.
Bandor (system of holding stocks obtained cheaply for selling at an opportune time), 106.
Bania (trader, a contemptuous word for a money-lender), 7, 17, 122, 175.
Banian (same as *Bania*), 17.
Baramasi (annual), 80.
Bargad (same as *Barkat*), 92.
Barkat (blessing), 92.
Batai (a system of loan in kind in which the money-lender and borrower agree to share the produce raised by the latter), 68.
Bazaar (indigenous money-market), 231.
Bazaar rate (rate at which the small traders' *hundis* are discounted by the indigenous bankers), 41, 97, 98, 101-3, 183-4, 186.
Bhai (brother), 75, 77, 79, 85, 87, 89.
Bhog bhunduk (usufructuary mortgage), 61*n*.
Bij (seed), 68.
Bismillah (blessing), 92.

Cha Jenni (same as *shahjahani*), 11.
Chaltu khata (current credit account), 69.
Chit association (same as *ela nidhi*), 199.
Choultries (rest-houses), 31.
Cowries (shells), 11, 12.
Crore (10,000,000), 29, 127.

Dakhillas (bankers' notes payable in a certain number of days), 22.
Dalal (broker), 105.
Dam (a copper coin, in Akbar's reign, $\frac{1}{40}$th rupee), 13.
Damdopat (ancient rule by which interest could in no case exceed the principal), 97.
Damri (a copper coin, $\frac{1}{8}$ dam), 13.
Darshani hundi (sight bill), 72, 73, 81.
Dastavez (bond), 60.
Dast gurda (credit by word of mouth), 63.
Dasturi (commission), 105, 106.
Dekhanhar hundi (*hundi* payable to bearer), 73, 78.
Derha or *Derhi* (same as *Dyodha*).
Dhani (a person), 78.
Dhanijog hundi (*hundi* payable to a person), 78.
Dhaniwar khata (personal 'ledger'), 83.
Dharam gola (granary, grain bank), 202.
Dharamkhata (charity fund), 29, 104, 106.
Dharna (method of dunning), 9.
Dipawali (same as *Divali*), 90.
Disti bhunduk (same as *drishti bhunduk*), 61*n*.
Diwali (a Hindu festival), 90.
Doon or *Doona* (double), 67.
Drishti bhunduk (ordinary mortgage), 61*n*.
Dyodha (one and a half times), 67, 93.

[1] Excluding names of castes and geographical names.

Mani (same as *maund*), 44*n*.
Masha ($\frac{1}{12}$th *tola*), 5, 12-13.
Maund (40 *seers*), 95.
Mehajun (see *mahajan*)
Miadi hundi (usance bill), 72.
Muddati hundi (usance bill), 72, 73, 80-81.
Muddati kharedi (mortgage of landed property in which the land lapses to the lender if the loan is not paid within the time stipulated), 61*n*.
Mukhia (chief or leader), 35.
Munim (agent, correspondent, clerk), 36, 105, 108.
Munshi (writer, clerk), 105.

Nagar Seth (city banker), 71.
Naik (leader, a term formerly employed in Maharashtra for a banker), 30*n*.
Najar gahan (mortgage of real property), 60*n*.
Nakal (notice of a *hundi*), 78.
Nakal bahi (" journal "), 83.
Narainy (coins formerly current in Cooch Behar), 19.
Nazrana (fee, present), 105.
Nikrai sikrai (penalty in the case of an invalidated *hundi*), 82.
Nou das (nine-ten, an example of *kist* system), 63*n*.

Pagoda (ancient gold coin of Madras), 24.
Paikar (money-lender), 44.
Paisa ($\frac{1}{4}$ anna), 11-12.
Paith (second copy of a *hundi*), 82, 85, 87, 89.
Panch (five leaders), 82, 89.
Panchayat (council of the five leaders), 192.
Panchayati (same as *Maijar*), 82, 89.
Parpaith (third copy of a *hundi*), 82, 87, 89,
Pathshala (school), 31.
Patta patawan (mortgage terminable after a stipulated period of time), 61.
Pie ($\frac{1}{12}$th anna), 39, 178.
Podars (money-changers), 24.

Rahan nama (mortgage deed), 60.
Rahas (a gold coin of Akbar's reign), 12.
Raiyat (cultivator), 110.
Rakhyaiwala dhani (payee), 73.
Rasid (receipt), 55.
Rehat (same as *Kist*), 62.
Rokad (cash), 83.
Rokad bahi (" cash book "), 83.
Rna (debt), 3.
Rnam-samni (payment of debt), 4.
Roznamcha (" day book "), 83.
Rujahi (daily, a kind of *kist*), 63.

Sah (trader, respectable person), 78.
Sahjog hundi (*hundi* payable to a respectable person), 78.
Sahukar (money-lender, banker), 7*n*.
Sahukari Byaj (interest among bankers), 95.
Sakarna (discounting of a *hundi*), 81.
Salami (same as *nazrana*), 105.
Samvata (Hindu era commencing from 57 B.C.), 75, 77, 85, 87, 89.
Sangh (religious order), 6.
Sapha (one-eighth), 4.
Saraogis (see *Sravakas*), 29.
Sarraf (same as *Shroff*), 14.
Sawaya (one and a quarter), 67, 93.
Seer (4,900 grains Troy), 139.
Sepoys (messengers), 105, 108, 152.
Seth or *Set* or *Sheth* (banker), 5, 15.
Shah (money-lender, borrower), 175.
Shahjahani (of the reign of Shahjahan), 11.
S'hansah (principal gold coin of Akbar's reign), 12.
Shroff (goldsmith, banker), 11, 19, 24-25, 41, 78, 234.
Sikka (coin), 24.
Sirkar (Government), 207.
Sood bahi (interest book), 90.
Sowkar (see *Sahukar*), 21.
Sradh (death anniversary), 118.
Sravakas (Jaina laity), 29.
Sudbharna (same as *Bhog bhunduk*), 61*n*.
Suki (the smallest silver coin of Akbar's reign), 13.
Suttawa Puttawa (mortgage repayable on an instalment system), 61.
Swadeshi (indigenous), 150.
Syces (grooms and stable men), 34.

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